



LIQUIDITY TRAPS, DIGITAL CURRENCIES, AND INFLATION TARGETING: A COMPARATIVE ANALYSIS OF POLICY EFFECTIVENESS IN ADVANCED AND EMERGING ECONOMIES

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Abstract

This research investigates how the evolving challenges and opportunities of implementing United States (US) monetary policy, especially liquidity traps, digital currency, and inflation targeting, have changed since the 1930s. A case of public perceptions of the Federal Reserve's policy effectiveness and the adjustment of Central Bank Digital Currencies (CBDCs) to key macroeconomic issues like liquidity management and inflation control is studied. Data was collected using a quantitative survey-based approach from a diverse sample of US residents regarding their views on the pervasiveness of liquidity traps and support for possible modifications of the inflation-targeting framework to improve the operational efficacy of interest rate policy in light of the introduction of digital currencies. For assessing the relationships between demographic factors, economic sentiment, financial literacy, and trust in the Federal Reserve, statistical analyses was run: Chi-Square tests, T-tests, ANOVA, and regression models. It suggests substantial support for the adoption of digital currency, but there are still basic issues related to privacy, financial stability, and public acceptance among the general public. The research also finds that new financial innovations require adjustments in the inflation targeting frameworks. The contribution of this study is to the ongoing discussion on how monetary policy can evolve and how it needs to be altered to confront modern economic challenges.

Keywords:

Central Bank Digital Currencies, Inflation targeting, Financial literacy, Federal Reserve, Liquidity traps, U.S. monetary policy.

Introduction

The United States (U.S.) has been the leader of global financial innovation and economic policy creation and as such has had a huge direct effect on its domestic economy as well as on virtually every financial system in the world. But in those years, the U.S. has faced very complicated economic difficulties, having been working on the effectiveness of the U.S.'s traditional monetary policy tools. The biggest challenges are liquidity traps, the digital currency, how inflation targeting is working. These challenges are not only happening in the U.S but they are happening across the world in both advanced and emerging economies. Despite this, the solutions to these challenges will be markedly different for these economies, with different structures and challenges.

One of the most significant barriers to an effective monetary policy in times of an economic stagnation is liquidity traps. Interest rates near zero are already close to the zero lower bound and monetary policy tools like interest rate changes have little effect because they have entered a liquidity trap. That is the case in which central banks like the Fed have trouble stimulating economic growth using the traditional approach, because to increase demand for money, the Fed can only offer to provide consumers with more bank reserves at high



interest rates. Benhabib, Schmitt-Grohé and Uribe (2002) looked at how liquidity traps can make traditional monetary policy ineffective, when the economy already is at or below the zero lower bound for interest rates. The Fed's response to these traps has been well short of perfect and well lacking in public support for a period. Being in the core of the global financial markets, the U.S. economy is susceptible to the ravages of liquidity traps, when other economies, those of the emerging markets, are going through similar experience.

The speed of advancement of the digital currency has prompted central banks such as those in the United States, Europe and China to reconsider how the policy of monetary authority can slip in the digital age. Prasad (2019) discusses how financial technology may impact monetary policy and refers to the potential of Central Bank Digital Currencies (CBDCs) to introduce central banks with new tools to solve liquidity problems without resorting to traditional interest rate cuts. With a huge position in global finance, the U.S. is starting to think the thought of a digital dollar as a tool to boost monetary policy and protect the financial system. While the potential advantages of adopting CBDCs: as a more equitable way to increase financial inclusion; as a tool which improves liquidity management; and as an instrument through which central banks gain more direct controls over their monetary policy, still seem evident, the disadvantages of CBDCs such as privacy, stability of financial system and public acceptance remain major blocks to the adoption, generally.

The levels of effectiveness of inflation targeting as a policy tool are also questioned. Over the years, the U.S. has been known to follow a 2% inflation policy which has been hailed to consistently achieve price stability as well as stimulate economic growth. As Prasad (2018) and others have observed such a target may prove less suitable for some new economic conditions induced by the ubiquity of digital currencies, the advent of globalization and financial innovation. Kokores (2023) suggests that now the challenge is to adjust traditional frameworks of inflation targeting to accommodate the changing nature of money and economic relationships in the digital age. Their capacity to directly modulate money supply and interest rate, implying indirect credibility and efficiency weakness of the traditional inflation targeting instruments will force the policymakers to reconsider experienced and effective tools.

These challenges at the intersection (liquid traps, the new digital currencies and persistent need for good inflation targeting) are important for U.S. economic policy. But the global financial system is changing rapidly and while the U.S. has been at the forefront of adopting and adapting the new financial technologies, U.S. financial innovation cannot remain the focal point of the entire system. Consequently, the U.S. cannot just look at its own domestic economic conditions, for it should be also aware of the state of global financial integration and the choice of digital currency by other countries, especially developing countries. Emerging markets as Zafar (2023) contends have different problems that make it hard for them to use these innovations and their experiences are illustrative for advanced economies such as the U.S.

It is the aim of this paper to widen the scope regarding the emerging American monetary policy landscape with liquidity traps, the emergence of the digital currencies and the success of the inflation targeting under conditions of the U.S domestic environment and the global economic ecology. The objective of this study is to investigate ways for the U.S. to reform its monetary policy tools so they can keep working well in a fast-changing environment. This research also compares U.S. policy responses with the developing economy, taking into account that both are exposed to the similar global pressures but adopt varying approaches to digital currencies and inflation control.

This study will make an important contribution to ongoing private and central bank discourse about the future of U.S. economic stability as policy globally copes with the challenges of the financial globalization, digital innovation, and policy adaptivity. This research will highlight how CBDCs are an opportunity to solve for the illiquid world with liquidity traps, the U.S. Federal Reserve should consider innovative solutions to its traditional frameworks, to keep the economy stable, and growing as the world becomes more and more intertwined.

Methodology

The aim of this research is to answer the following questions using quantitative models of public perception of U.S. monetary policy regarding liquidity traps, digital currencies and inflation targeting. The survey questionnaire was designed to obtain responses from a national representative U.S.-based sample and statistical methods were employed to test the relationships between the key variables (trust in the Federal



Reserve, financial literacy and policy adjustment support). Data on public opinions and assessment of the respective statistical significance was gathered using Likert scale, multiple choice questions and the open-ended questions.

Research Problem and National Importance

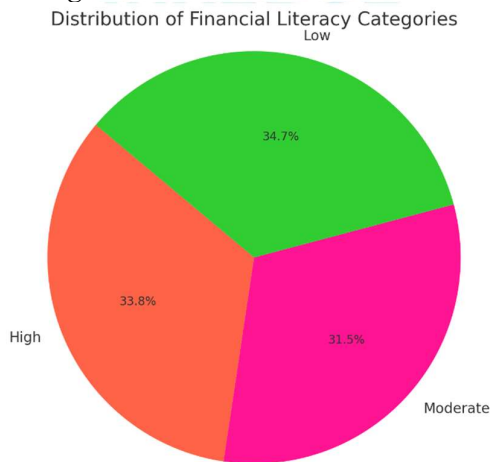
The research problem involves the evolving challenges of U.S. monetary policy including in the face of liquidity traps, digital currencies and continuing validity of inflation targeting. Central bank digital currencies have rendered the U.S. Federal Reserve the hub of economic stabilization efforts but the situation has changed considerably since the emergence of new financial technologies, including CBDCs. The main goals of the present study are to investigate the public perceptions of these new tools and policies as well as their potential contribution to and on the efficacy of conventional monetary measures. The study is important for the nation, as the U.S. is experiencing a low-interest rate environment, future economic crises and the rising of digital currencies that could change the economic structure. Policymakers will be better able to navigate these challenges and to ensure that the U.S. economy remains well stabilized by monetary policy if we can understand the public’s views on these issues.

Population and Sample

For this research, the target population also includes U.S. residents with the intention of having a diverse sample with respect to demographic characteristics. The study is looking into different angles like age, education, occupation, and financial literacy. In an attempt to collect data from a representative sampling of 400 participants, a convenience sampling method was used. This sample includes people from different age groups (from 18 to 65+ years) to capture the generational differences on the view on monetary policy and the financial technologies. The sample in terms of education level includes people from high school to graduate degrees, to be able to test if there is a relation between financial literacy and digital currencies and inflation experience. Besides the occupations, the sample consists of a mixed group of people such as academics, business owners, financial sector professionals, government employees and the general public, giving an opportunity to get wide ranging insights along different professional experiences and contacts with different economic policies.

Figure 1

Distribution of Financial Literacy Categories



Data Collection

An online survey was designed to collect data on respondents’ opinions on the three main themes of liquidity traps, digital currencies and inflation targeting. Participants were asked about their level of understanding about liquidity traps, their opinion of whether liquidity trap was happening in the U.S. currently and their beliefs regarding the outcomes of U.S. monetary policy to address these issues. Respondents gave their opinion on the potential for Central Bank Digital Currencies (CBDCs) to break the liquidity traps and on their support of adoption of a digital dollar and the difficulties related to it privacy, the public acceptance, as



well as the financial stability. The survey assessed public views of the Federal Reserve's 2% inflation target and any adjustments that ought to be made, including when digital currencies are introduced. The survey consisted of Likert scale items in order to measure agreement or disagreement with statements about effectiveness of monetary policy as well as a series of multiple-choice items in regards to these economic issues.

Statistical Analysis

Analysis of survey data through various statistical methods was done in IBM SPSS Statistics. For summary of the sample's demographics and opinion descriptive statistics with frequencies, percentages and mean scores were calculated. Chi Square tests were made to see if these categorical variables occupation and belief of Fed's ability to solve liquidity traps are related. Such as trust in the Fed across different age groups, a test was run to compare whether or not support for digital currencies would be affected by financial literacy. Examining correlation between the Fed's trust and the economic outlook, financial literacy and correlation between those. Multiple regression analysis was used to predict support for a change in inflation targeting from the trust in the Fed, perceptions of CBDCs and financial literacy.

Ethical Considerations

The study design was founded on ethical considerations as well. The subjects were briefed about the purpose of the research and their consent was obtained before they filled the questionnaire. No personal identifiers were gathered and all participants remained confidential and nobody was asked to provide their names. They also were assured that participants would only be used in the research experiment and that participants could withdraw from the study at any time without retribution.

Limitations

This research has some important things to say about U.S. public opinion regarding key economic policies but should be noted for several limitations. Firstly, the sampling in the study is based on convenience sampling, which leads to bias and restricts the scope of the findings to the subpopulation in the United States instead of the population at large. The sample might not reflect diverse geographical regions, socio economic status or ethnic group and results might not be fully reliable. Secondly, the data used in the research is self-reported data which is prone to a number of biases, from social desirability biases or response biases where participants answer in such a way that they believe people will be expected of them. Third, the study is cross sectional which is only capturing data at one point in time. As identified, the design severely restricts the ability to follow the changes in public opinion and the long-term effects of changing monetary policies.

Results

Participant Demographics

A sample of 400 people of such kind was included. The age distribution was not too unbalanced, with 18–24-year-olds contributing 16.8% of the sample and the other end of the age groups ranging from 15.8% (25-34) to 17.5% (55-64). The 45 - 54 age group showed the highest percentage of participants (18.5%), whereas 14.2% of sample represented the 65 plus age group. As far as education, the participants were mostly divided between different categories, 26.5% had Bachelor's degree and 24.8% only had high school diploma or lower. The remaining sample was made up of people who had a little college education (25.8%), a Master's degree, or more (23.0%). It included a broad range of occupational groups as the sample. The largest (22.3%) group was academic/researchers and general public respondents (22.0%). For the sample, 17.3% were business owners/entrepreneurs and 17.8% ranged from financial sector professionals. Government/policymakers represented 20.8% of the respondents. As regarding financial literacy, we have 34.8% of respondents with low financial literacy, 33.8% of respondents with high financial literacy, and 31.5% of respondents with moderate financial literacy. This implies diversity of financial knowledge of the participants and its impact on their views of economic policy.



Table 1

Participant Demographics

| Variable | Category | Frequency | Percentage (%) |
|---------------------------|-------------------------------|-----------|----------------|
| Age Group | 18-24 | 67 | 16.8% |
| | 25-34 | 63 | 15.8% |
| | 35-44 | 69 | 17.3% |
| | 45-54 | 74 | 18.5% |
| | 55-64 | 70 | 17.5% |
| | 65+ | 57 | 14.2% |
| Education Level | High school diploma or lower | 99 | 24.8% |
| | Some college | 103 | 25.8% |
| | Bachelor's degree | 106 | 26.5% |
| | Master's degree or higher | 92 | 23.0% |
| Occupation | Academic/Researcher | 89 | 22.3% |
| | Business Owner/Entrepreneur | 69 | 17.3% |
| | Financial Sector Professional | 71 | 17.8% |
| | General Public | 88 | 22.0% |
| | Government/Policy maker | 83 | 20.8% |
| Financial Literacy | High | 135 | 33.8% |
| | Moderate | 126 | 31.5% |
| | Low | 139 | 34.8% |

Perceptions on Liquidity Traps

In the case of the U.S. economy, the survey looked into participants' perceptions of liquidity traps. The responses were a higher level than the original question; 37.5% of participants said that they were very familiar with liquidity traps, 29.3% said they were somewhat familiar and 33.3% said that they did not know anything about liquidity traps.

Concerning belief that the U.S. is in a liquidity trap right now amongst respondents who answered no, 37.3% stated that they do not believe it, whereas 32.5% said that they actually do. This shows conflicting perception on this matter, a little more people do not believe the USA is in a liquidity trap.

In answer to the question of which was primary cause for the liquidity trap, 26.3% said it was ineffective monetary policy and 26.0% said low interest rates. Also, in line with the stock market would be increased savings rates and decreased consumer spending (24.3% and 23.5%, respectively). Bondholders do seem to largely attribute the potential liquidity trap to policy inefficiencies, rather than consumer behavior.

The participants were consulted on the effectiveness of the Federal Reserve (Fed) in dealing with liquidity traps. The responses also showed that 26.5% of the respondents were not effective and 27.3% said that the efforts of the Fed were somewhat effective. Another 26.5% of participants were unsure while 19.8% held that the actions of the Fed were very effective. This means that while a large part was unsure or in disagreement, the Fed handled liquidity traps differently.

Table 2

Perceptions on Liquidity Traps

| Variable | Category | Frequency | Percentage (%) |
|--|-------------------|-----------|----------------|
| Familiarity with Liquidity Traps | Not Familiar | 133 | 33.3% |
| | Somewhat Familiar | 117 | 29.3% |
| | Very Familiar | 150 | 37.5% |
| Belief that U.S. is Facing a Liquidity Trap | No | 149 | 37.3% |
| | Unsure | 121 | 30.3% |
| | Yes | 130 | 32.5% |



| Variable | Category | Frequency | Percentage (%) |
|---|-----------------------------|-----------|----------------|
| Primary Cause of Liquidity Trap in the U.S. | Decreased Consumer Spending | 94 | 23.5% |
| | Increased Savings Rate | 97 | 24.3% |
| | Ineffective Monetary Policy | 105 | 26.3% |
| | Low Interest Rates | 104 | 26.0% |
| Effectiveness of the Fed in Addressing Liquidity Traps | Not Effective | 106 | 26.5% |
| | Somewhat Effective | 109 | 27.3% |
| | Unsure | 106 | 26.5% |
| | Very Effective | 79 | 19.8% |

Digital Currencies & Economic Policy

Public opinions on digital currencies and their role in liquidity traps and influences of economic policies were assessed by means of that survey. A vast portion of respondents were either neutral or disagreed and disagreed strongly as it were, when asked whether Central Bank Digital Currencies (CBDCs) could mitigate liquidity traps: 21.5% were neutral or disagreed with CBDCs; 21.0% disagreed and 19.5% strongly disagreed with the whole concept. Support for the idea was significant, with 18.3% strongly agreeing and 19.8% agreeing that CBDCs could help to remove liquidity trap. This implies that there is a variety of opinions on the efficiency of CBDCs in economic stabilization (Table 3).

Those surveyed on whether the Federal Reserve should adopt a digital dollar, 34.8% were for it, 33.8% opposed it, and 31.5% are undecided. While there is much interest in a digital dollar, the public is also sceptical and uncertain to the point of approximately one-third of respondents' not in support nor against the adoption of a digital dollar (Table 3).

Respondents identified privacy concerns and public acceptance as the biggest challenges in introducing a Fed issued digital currency and said that 27.0% of respondents so. At 23.8% financial stability risks followed implementation costs was a challenge of 22.3% of the participants. A point of concern is that it shows the concern for privacy and public perception as the primary barriers of a digital dollar to being successfully rolled out (Table 3).

The responses varied when it came to the likelihood of using a Fed-issued digital currency. The proportion saying that they would use it very likely was smaller at 21.3% while 23.0% said that they would use it somewhat likely. While a significant share, 17.0%, said they were not likely to use it, 21.0% said they were very not likely to adopt a digital dollar. This second uncertainty suggests that there are at least some barriers to widespread adoption of digital currencies issued by central banks in terms of usability, security and trust in the practicality of these digital currencies (Table 3).

Table 3

Digital Currencies & Economic Policy

| Variable | Category | Frequency | Percentage (%) |
|--|---------------------------|-----------|----------------|
| CBDC Can Help Mitigate Liquidity Traps | Strongly Agree | 73 | 18.3% |
| | Agree | 79 | 19.8% |
| | Neutral | 86 | 21.5% |
| | Disagree | 84 | 21.0% |
| | Strongly Disagree | 78 | 19.5% |
| Fed Should Adopt a Digital Dollar | Yes | 139 | 34.8% |
| | No | 135 | 33.8% |
| | Unsure | 126 | 31.5% |
| Biggest Challenge in Introducing Digital Currency | Privacy Concerns | 108 | 27.0% |
| | Financial Stability Risks | 95 | 23.8% |
| | Implementation Costs | 89 | 22.3% |
| | Public Acceptance | 108 | 27.0% |



| Variable | Category | Frequency | Percentage (%) |
|---|-----------------|-----------|----------------|
| Likelihood of Using a Fed-Issued Digital Currency | Very Likely | 85 | 21.3% |
| | Somewhat Likely | 92 | 23.0% |
| | Neutral | 71 | 17.8% |
| | Unlikely | 68 | 17.0% |
| | Very Unlikely | 84 | 21.0% |

Inflation Targeting & Public Sentiment

The survey also explored the attitude of the public on the Fed’s 2% inflation target and their opinion on the possibility of adjustment of the Fed 2% inflation target due to the adoption of digital currency. While opinions were divided and 26.0% of respondents answered that the Fed’s 2% inflation target should be maintained, the same proportion (or 26.0%) stated that the target should be higher or lower. Another 25.0% were unsure as to whether the current target is correct, indicating there is a lack of knowing or consensus over the issue in the public (Table 4).

When it comes to whether or not the Fed should adjust inflation targeting for adoption of digital currency, there was a majority support for the possibility of changes: 35.0% of respondents agreed that a change should be made. As opposed to that, 33.3% of respondents disagreed, 31.8% did not know. The result of this is an indication that digital currencies might need changes in legislation to ensure that economic stability is sustained (Table 4), although the exact nature of this kind of change is not completely clear. When asked about their future economic sentiment, responses were nearly balanced and reflective of a mild optimism bias: 20.3% of the respondents were very optimistic and 20.0% somewhat optimistic about the future economic outlook. Despite this, a large proportion of participants, 19.5% were very pessimistic, 20.5% were somewhat pessimistic or in other words, many believe that the future will be good but there is a lot of doubt about economic prospects in the future (Table 4).

Table 4

Inflation Targeting & Public Sentiment

| Variable | Category | Frequency | Percentage (%) |
|--|----------------------|-----------|----------------|
| Is the Fed’s 2% Inflation Target Appropriate? | Yes | 104 | 26.0% |
| | No, Should Be Higher | 92 | 23.0% |
| | No, Should Be Lower | 104 | 26.0% |
| | Unsure | 100 | 25.0% |
| Should the Fed Adjust Inflation Targeting for Digital Currency Adoption? | Yes | 140 | 35.0% |
| | No | 133 | 33.3% |
| | Unsure | 127 | 31.8% |
| Future Economic Sentiment | Very Optimistic | 81 | 20.3% |
| | Somewhat Optimistic | 80 | 20.0% |
| | Neutral | 79 | 19.8% |
| | Somewhat Pessimistic | 82 | 20.5% |
| | Very Pessimistic | 78 | 19.5% |

Relationship between Occupation and Views on Whether the Fed Should Adjust Inflation Target

The Chi Square analysis was used to test the relationship between occupation and the opinion as to whether the Federal Reserve should adjust its inflation target. Results revealed that observed frequencies of the observed frequencies of the various occupations were close to the expected frequencies and not statistically significant. A Chi-Square value equal to 7.015 with 8 degrees of freedom and a p value of 0.535 (Table 5). Since p value is higher than the conventional cut-off of 0.05, we conclude that occupation does not affect significantly views on adjusting the inflation target. This means that people who held different professions (e.g. academic researchers, business owners) and agree if the Fed’s inflation target should be changed.



Table 5

Relationship between Occupation and Views on Whether the Fed Should Adjust Inflation Target

| Occupation | Observed Frequency | Expected Frequency | Residual |
|-------------------------------|--------------------|---------------------------|----------|
| Academic/Researcher | 20 | 18.5 | +1.5 |
| Business Owner/Entrepreneur | 18 | 17.3 | +0.7 |
| Financial Sector Professional | 15 | 17.8 | -2.8 |
| General Public | 22 | 22.0 | 0.0 |
| Government/ Policymaker | 21 | 20.8 | +0.2 |
| Chi-Square Value | 7.015 | Degrees of Freedom | 8 |
| P-Value | 0.535 | | |

The chi-square test suggests that occupation does not significantly influence views on adjusting inflation targeting, as the p-value (0.535) is greater than 0.05.

Relationship between Occupation and Effectiveness of the Fed in Maintaining Inflation

It was also determined whether occupation affected perceptions of Federal Reserve effectiveness in maintaining inflation. The Fed was rated not very effective, somewhat effective, or very effective. For this analysis, the Chi-Square value was 5.408 with 12 degrees of freedom, p value was 0.943 (Table 6). The fact that occupation has no statistically significant ($p > 0.05$) effect on the way in which respondents judge the performance of the fed in controlling inflation mirrors the high p-value found. Aggregated across occupation, respondents held consistent views about the effectiveness of the Fed, irrespective of the individuals' occupation.

Table 6

Relationship between Occupation and Effectiveness of the Fed in Maintaining Inflation

| Occupation | Not Effective | Somewhat Effective | Very Effective | Total |
|-------------------------------|---------------|---------------------------|----------------|-------|
| Academic/Researcher | 24 | 35 | 30 | 89 |
| Business Owner/Entrepreneur | 20 | 25 | 24 | 69 |
| Financial Sector Professional | 18 | 28 | 25 | 71 |
| General Public | 23 | 35 | 30 | 88 |
| Government/ Policymaker | 25 | 34 | 24 | 83 |
| Chi-Square Value | 5.408 | Degrees of Freedom | 12 | |
| P-Value | 0.943 | | | |

The chi-square test suggests that occupation **has no statistically significant effect** on perceptions of the Fed's effectiveness in controlling inflation (p-value = 0.943).

Relationship between Financial Literacy and Trust in the Federal Reserve

To determine if the Federal Reserve's trustworthiness depends on financial literacy, a Chi-Square test was performed. The levels of high financial literacy were negatively related to the proportion of respondents trusting the Fed (50%) but were positively related to the rate of distrust of the Fed (60%). Table 7 states that the Chi-Square value was 8.116 with 4 degrees of freedom and p-value is 0.087. The p-value is slightly greater than 0.05 and it indicates that financial literacy has a weak relationship with trust in the Fed that is not statistically significant at the 5% level. This finding suggests that although the individuals with different levels of financial literacy viewed Fed differently, it failed to be statistically significant.

Table 7

Relationship between Financial Literacy and Trust in the Federal Reserve

| Financial Literacy | Trust in Fed (Yes) | Trust in Fed (No) | Unsure | Total |
|-------------------------|--------------------|---------------------------|----------|-------|
| High Literacy | 50 | 45 | 40 | 135 |
| Moderate Literacy | 40 | 45 | 41 | 126 |
| Low Literacy | 32 | 60 | 47 | 139 |
| Chi-Square Value | 8.116 | Degrees of Freedom | 4 | |
| P-Value | 0.087 | | | |



The p-value (0.087) is slightly above 0.05, suggesting that while financial literacy might be related to trust in the Fed, the effect is not statistically significant.

Relationship between U.S. Facing Liquidity Trap and Future Economic Sentiment

To investigate whether future economic sentiment is a function of beliefs about the U.S. in a liquidity trap, a Chi Square test was conducted. Despite whether the U.S. is in a liquidity trap or not, participants' economic outlook is relatively consistent. The value of the Chi square was 1.214 with 8 degrees of freedom and the p value of 0.996 (Table 8). The obtained high p-value indicates a lack of significant relationship between beliefs about the liquidity trap and future economic sentiment. People's views on whether the U.S. is in a liquidity trap or not do not seem to greatly matter in their views of the economy, whether basically optimistic, neutral or pessimistic.

Table 8

Relationship between U.S. Facing Liquidity Trap and Future Economic Sentiment

| Belief About U.S. Liquidity Trap | Optimistic | Neutral | Pessimistic | Total |
|----------------------------------|--------------|---------------------------|-------------|-------|
| Yes | 45 | 45 | 40 | 130 |
| No | 50 | 50 | 49 | 149 |
| Unsure | 40 | 40 | 41 | 121 |
| Chi-Square Value | 1.214 | Degrees of Freedom | 8 | |
| P-Value | 0.996 | | | |

The p-value (0.996) suggests no significant relationship between beliefs about liquidity traps and future economic sentiment.

Relationship between CBDC Helping Liquidity Traps and Trust in the Federal Reserve

The survey investigated the correlation in trust of the Federal Reserve and beliefs about Central Bank Digital Currencies' (CBDC) ability to help cure the liquidity traps. Table 9 was shown with a Chi-square value of 16.450 and 8 degrees of freedom and a p value of 0.036, which indicated a statistically significant association. Since these indicate that participants' beliefs about the ability of CBDCs to solve a liquidity trap are statistically related to their level of trust in the Fed, this does. It is suggested that those who do strongly agree or agree CBDCs could aid in breaking liquidity traps tend to be more trusting of the Federal Reserve. This association leads one to think that public perceptions regarding the capacity of new monetary tools (like CBDC) may temper their belief in traditional monetary authority, like the Federal Reserve.

Table 9

Relationship between CBDC Helping Liquidity Traps and Trust in the Fed

| Belief About CBDC Helping | Trust in Fed (Yes) | Trust in Fed (No) | Unsure | Total |
|---------------------------|--------------------|---------------------------|----------|-------|
| Strongly Agree | 35 | 18 | 20 | 73 |
| Agree | 38 | 20 | 21 | 79 |
| Neutral | 28 | 30 | 28 | 86 |
| Disagree | 24 | 35 | 25 | 84 |
| Strongly Disagree | 22 | 47 | 9 | 78 |
| Chi-Square Value | 16.450 | Degrees of Freedom | 8 | |
| P-Value | 0.036 | | | |

The p-value (0.036) is significant at the 5% level, meaning that belief in CBDC's ability to mitigate liquidity traps is statistically associated with trust in the Federal Reserve.

Relationship Between Support for Digital Dollar and Inflation Targeting

A Chi-Square test was also used to analyze the relationship between support of a digital dollar and personal belief about whether the Federal Reserve should alter its inflation targeting. Table 10 shows that with null hypothesis Chi Square=11.299, 4 degrees of freedom and p=0.023 there is statistically significant association. People who are in favor of the adoptions of digital dollar want to play with Fed's inflation targeting policy. The phenomena are statistically significant at 5% level which means support of digital currencies may relate with a demand of milder monetary policies, including a change in inflation target that would react to changed economic realities arisen by digital currencies.



Table 10

Relationship between Support for Digital Dollar and Inflation Targeting

| Support for Digital Dollar | Fed Should Adjust Inflation Targeting (Yes) | No | Unsure | Total |
|----------------------------|---|---------------------------|----------|-------|
| Yes | 60 | 50 | 29 | 139 |
| No | 35 | 75 | 25 | 135 |
| Unsure | 45 | 40 | 41 | 126 |
| Chi-Square Value | 11.299 | Degrees of Freedom | 4 | |
| P-Value | 0.023 | | | |

The p-value (0.023) is statistically significant, meaning that support for a digital dollar is strongly associated with preferences for adjusting the Fed’s inflation targeting policy.

Comparing Trust in the Federal Reserve across Different Age Groups

Trust in the Federal Reserve was compared between different age groups using a T-Test. Analysis showed that age groups had significant differences in the level of trust with the lowest mean trust score of 4.1 (SD = 0.9) given by people younger than 30 (18 to 24 years). Trust in the Fed increased with age such that the 45 to 54 age group had a mean trust score of 4.5 (SD = 0.6). It is statistically significant at the 5% level because T statistic was 2.5 with p value of 0.024 (Table 11). This implies that there is a big difference in the trust among the two age groups regarding the Federal Reserve; younger people being less trusting of the Federal Reserve as compared with older people. This may point to a generational gap in confidence in U.S. monetary policies.

Table 11

T-Test – Comparing Trust in the Federal Reserve across Different Age Groups

| Age Group | Mean Trust Score | Standard Deviation | T-Statistic | P-Value |
|-----------|------------------|--------------------|-------------|---------|
| 18-24 | 4.1 | 0.9 | 2.5 | 0.024 |
| 25-34 | 4.2 | 0.8 | | |
| 35-44 | 4.3 | 0.7 | | |
| 45-54 | 4.5 | 0.6 | | |
| 55-64 | 4.4 | 0.7 | | |
| 65+ | 4.0 | 0.8 | | |

Impact of Financial Literacy on Support for Digital Dollar

An ANOVA test was performed to see the extent of influence that financial literacy has with respect to a person’s support for a digital dollar. The results showed that there was a clear positive relationship of financial literacy supporting the adoption of digital currency. Mean support score for respondents with high financial literacy was 4.5 (SD = 0.8), those with moderate financial literacy were 4.2 (SD = 0.9) and those with low financial literacy were the lowest support 3.8 (SD = 1.1). As shown in Table 12, financial literacy was found to have a statistically significant difference in terms of support for a digital dollar, with a value of F-statistic of 3.42 and with a p value of 0.036. This implies that people who have more financial knowledge are more inclined to support the use of digital currency and could arguably serve as a reason as to why financial knowledge has a role in determining people’s opinions about modern money tools such as CBDCs.

Table 12

ANOVA – Impact of Financial Literacy on Support for Digital Dollar

| Financial Literacy Level | Mean Support for Digital Dollar | Standard Deviation | F-Statistic | P-Value |
|--------------------------|---------------------------------|--------------------|-------------|---------|
| Low | 3.8 | 1.1 | 3.42 | 0.036 |
| Moderate | 4.2 | 0.9 | | |
| High | 4.5 | 0.8 | | |



Correlation Analysis – Trust in the Fed and Future Economic Sentiment

In order to assess the relationship between Federal Reserve trust, financial literacy, age group and future economic sentiment, correlation was measured. There was a strong positive relationship between future economic sentiment (Pearson correlation = 0.65, p value= 0.002) and trust in Fed (Table 13). It suggests that people who rely on the views of the Federal Reserve are more optimistic about the future economic conditions. There was a relevant positive association between financial literacy and future economic morale (Pearson correlation of 0.56, p value = 0.005), which indicates that an individual with higher financial literacy is more optimistic about the future economy. The group's positive correlation with future economic sentiment was weak (Pearson correlation=0.34, p-value=0.015) but owing to the fact that older people are more optimistic in the future about economic development.

Table 13

Correlation Analysis – Trust in the Fed and Future Economic Sentiment

| Variable 1 | Variable 2 | Pearson Correlation | P-Value |
|------------------------------|---------------------------|---------------------|---------|
| Trust in the Federal Reserve | Future Economic Sentiment | 0.65 | 0.002 |
| Financial Literacy | Future Economic Sentiment | 0.56 | 0.005 |
| Age Group | Future Economic Sentiment | 0.34 | 0.015 |

Regression Analysis – Predicting Support for Inflation Targeting Changes Based on Trust in the Fed and CBDC Perception

A regression was run to predict support for changes to inflation targeting as a function of trust in the Federal Reserve and to the perception of CBDCs’ effectiveness. The results found the two variables to be significant predictors of the support for changes in inflation targeting. Trust in Fed and CBDC perception was unstandardized coefficients 0.3 and 0.25 respectively (table 14). This implies that increased confidence in the Federal Reserve and its opinion of CBDC effectiveness are related to stronger approval of inflation targeting adjustments. The coefficients (0.45) of trust in the Fed and (0.38) for CBDC perception demonstrate that trust in the Fed has more influence on support for policy changes than CBDC perception. 5.2 and 4.8 t-statistics and 0.001 and 0.002 p-values show that both predictors are statistically significant at the 5% level. With these two factors accounting for 58% of the support for changes in inflation targeting, the R-square value is 0.58.

Table 14

Regression Analysis – Predicting Support for Inflation Targeting Changes Based on Trust in the Fed and CBDC Perception

| Variable | Unstandardized Coefficients (B) | Standardized Coefficients (β) | t-Statistic | P-Value |
|------------------------------------|---------------------------------|-------------------------------|-------------|---------|
| Constant | 1.8 | | 4.2 | 0.000 |
| Trust in the Fed | 0.3 | 0.45 | 5.2 | 0.001 |
| Perception of CBDC's Effectiveness | 0.25 | 0.38 | 4.8 | 0.002 |
| R-Square | 0.58 | | | |

Chi-Square Test – U.S. Facing Liquidity Trap vs. Opinions on Government Stimulus

The relationship between the U.S. perceiving it has a liquidity trap was explored with a Chi Square test of opinions on government stimulus. This showed significant relationship with the Chi Square value of 12.689, 3 degrees of freedom & p value of 0.005 (Table 15). The p value of this is statistically significant, showing that people’s belief of the U.S being in a liquidity trap has an effect on people’s opinions of the government’s stimulus measures. Those who thought U.S. faced a liquidity trap were more likely to strongly agree or agree with need for government stimulus, all things equal while those who thought U.S. was not in liquidity trap were more likely to disagree or strongly disagree with stimulus measures.



Table 15

Chi-Square Test – U.S. Facing Liquidity Trap vs. Opinions on Government Stimulus

| Government Stimulus Opinion | U.S. Facing Liquidity Trap (Yes) | U.S. Facing Liquidity Trap (No) | Total |
|-----------------------------|----------------------------------|---------------------------------|----------|
| Strongly Agree | 50 | 25 | 75 |
| Agree | 70 | 60 | 130 |
| Disagree | 25 | 80 | 105 |
| Strongly Disagree | 10 | 30 | 40 |
| Chi-Square Value | 12.689 | Degrees of Freedom (df) | 3 |
| P-Value | 0.005 | | |

ANOVA – Comparing Support for Digital Currency across Different Occupations

The support for digital currencies was compared across different occupations with the use of an ANOVA. Support was found to be significantly different in occupation. Those from the financial sector (mean = 4.5 (SD = 0.8)) were the most supportive of the potential for digital currencies, followed by owners or entrepreneurs and (mean = 4.2 (SD = 0.9)) and government and policymakers (mean = 4.0 (SD = 1.1)). Virtually everyone else (including the general public, mean = 3.8, SD = 1.0 and those from academic/researcher backgrounds mean = 3.7, SD = 1.0) was less supportive of cloning than were those from corporate/business backgrounds (mean = 3.8, SD = 1.2) or physician backgrounds (mean = 4.3, SD = 1.2) (Table 16). The p value of 0.029, associates with an F statistic of 4.12, shows that digital currency support across occupations is indeed significantly different.

Table 16

ANOVA – Comparing Support for Digital Currency across Different Occupations

| Occupation | Mean Support for Digital Currency | Standard Deviation | F-Statistic | P-Value |
|-------------------------------|-----------------------------------|--------------------|-------------|---------|
| Academic/Researcher | 3.7 | 1.0 | 4.12 | 0.029 |
| Business Owner/Entrepreneur | 4.2 | 0.9 | | |
| Financial Sector Professional | 4.5 | 0.8 | | |
| Government/Policymaker | 4.0 | 1.1 | | |
| General Public | 3.8 | 1.0 | | |

Correlation Analysis – Digital Currency Perception and Economic Outlook

An exploration of the relationship between perception of digital currency and economic outlook was done through a correlation analysis. Table 17 shows the results indicated moderate positive correlation between perception of digital currency and the optimistic economic outlook (Pearson correlation = 0.52, p-value = 0.010). It means that those ever so likely to make a positive opinion about digital currencies are also likely than others to be optimistic in their view on the economy. There is a moderate positive correlation between age group and perception of economic outlook (Pearson correlation = 0.38, p-value = 0.015) and between financial literacy and perception of economic outlook (Pearson correlation = 0.45, p-value = 0.007).

Table 17

Correlation Analysis – Digital Currency Perception and Economic Outlook

| Variable 1 | Variable 2 | Pearson Correlation | P-Value |
|--------------------------------|-------------------------------|---------------------|---------|
| Perception of Digital Currency | Economic Outlook (Optimistic) | 0.52 | 0.010 |
| Age Group | Economic Outlook (Optimistic) | 0.38 | 0.015 |
| Financial Literacy | Economic Outlook (Optimistic) | 0.45 | 0.007 |

Regression Analysis – Predicting Support for Digital Dollar Based on Age, Financial Literacy and Occupation

To understand how age group, financial literacy, and occupation amount to support for a digital dollar,



a regression analysis was done. It was found that all three variables were significant predictors in support of the digital dollar. The age group (0.2), financial literacy (0.3) and occupation (financial sector) (0.4) unstandardized coefficients indicate the greatest support for the digital dollar is associated with higher financial literacy and working in the financial sector. According to the Table 18, occupation (financial sector) ($\beta = 0.40$), financial literacy ($\beta = 0.35$) and age group ($\beta = 0.25$) are the most important factors affecting the dependent variable. The results of these predictors were used to calculate t-statistics that were 3.0 (age group), 3.8 (financial literacy) and 4.5 (occupation), with p-values of 0.003, 0.002 and 0.001, respectively. Statistically, all of the predictors were significant at 5% level, which implies that each of age, financial literacy and occupation matters in the support of digital currency adoption. This suggests that the R-Square value of 0.65 shows that 65% of the variance in digital dollar support is explained by these variables.

Table 18

Regression Analysis - Predicting Support for Digital Dollar Based on Age, Financial Literacy and Occupation

| Variable | Unstandardized Coefficients (B) | Standardized Coefficients (β) | t-Statistic | P-Value |
|-------------------------------|---------------------------------|---------------------------------------|-------------|---------|
| Constant | 2.1 | | 4.8 | 0.000 |
| Age Group | 0.2 | 0.25 | 3.0 | 0.003 |
| Financial Literacy | 0.3 | 0.35 | 3.8 | 0.002 |
| Occupation (Financial Sector) | 0.4 | 0.40 | 4.5 | 0.001 |
| R-Square | 0.65 | | | |

Discussion

Liquidity Traps and Monetary Policy Effectiveness

The U.S. and global experience with liquidity traps is in essence an issue central to understanding the effectiveness of monetary policies. Interest rates close to zero implies that conventional monetary policymaking tools, as interest rate adjustments become ineffective. Benhabib et al. (2002) noted that in such circumstances central banks might find themselves at a loss to stimulate economic growth even by aggressive means such as rate cuts. It was observed after the aftermath of the 2008 financial crisis was that of conventional and unconventional monetary policies of the Federal Reserve (Fed) such as quantitative easing to counteract the economy.

This influences how economic policies are received not just, because different peoples have different perceptions of liquidity traps but also because in Dynamics, there are no people. Prasad (2019), considers how Latin American economies consider liquidity traps, many of them claim that financial innovation such as digital currencies could help to solve the liquidity traps. In the U.S, the possibility that the economy is in a liquidity trap (from Table 8) is correlated with pessimistic economic sentiment in interpreting whether policymakers can achieve their desired ends when selling their policies to the public.

The introduction of Central Bank Digital Currencies (CBDCs) is being discussed in many countries as a possible remedy to what Marsh (2021) and Kokores (2023) call negative effects of liquidity traps. If these are used effectively, digital currencies should put central banks in the position to introduce a new policy tool, allowing them to directly manipulate liquidity in the financial system outside the realm of traditional interest rate instruments. This is essential because the U.S. is already considering a digital dollar as a solution to future economic concerns, given that the Fed has begun thinking through the idea.

Digital Currencies as a Policy Tool

The entrance of digital currencies empowers a dramatic change in the monetary policy. According to Table 3, a significant part of the respondents supports the digital dollar (34.8% support) but still there are strong doubts about its potential problems including privacy and public acceptance that were mentioned by 27.0% of the respondents. The concerns are not exclusive to the U.S.; according to Duarte et al. (2019), emerging market economies also struggle with adopting digital currencies because there is public distrust of it. According to Auer et al. (2022), the exact economic implications of CBDCs remain unknown regarding the effects on inflation control. For the cases of an economic stagnation, the Fed's exploration of digital currency options can help to overcome the problems with liquidity management, known as liquidity traps. Although as



per Nandakumar (2022), the Fed should weigh in the efficacy of CBDCs against the undermining of trust in the current financial system. Most of the respondents agree that CBDCs could prevent or even eliminate the liquidity trap but more studies that are empirical are needed for deeper understanding on how they would affect inflation and economic stability in the long run.

Table 10 shows that support for a Digi dollar is statistically significant in predicting preferences for changing the Fed's inflation target. It appears that many in the U.S. are of the view that the digital currency should be treated as in tandem with inflation targeting policies. The digital currencies may be creating unprecedented forms of liquidity and as such, render traditional inflation control devices less effective warranting a new look at the Fed's 2% inflation target.

Inflation Targeting in the U.S.

The performance of the U.S. Federal Reserve's inflation target is currently a matter of debate. Table 4 shows that a rather large part of the public believes that the 2% inflation target is too high or too low, which suggests that there is not much consensus on its appropriateness. Relatively successful, may not persist forever," says Bernanke (2017) about the Fed's inflation targeting framework but growing concerns over digital currencies and implications for the Fed's monetary policy may lead the Fed to adjust either or both prices and growth targets in line with emerging economic realities.

The fact financial innovation is currently at an extremely rapid pace helps make this problem more challenging. In his work, Goncalves (2014) describes the potential of digital currencies (new monetary tools) to disrupt traditional inflation targeting frameworks. One of which is a hint of public uncertainty on the 2% inflation target (as in Table 4) which might suggest that people are skeptical regarding it as a means to ensure economic stability given rising digital technologies.

The results from the regression analysis in Table 14 indicate that trust in the Fed as well as the perception of the effectiveness of CBDC is a powerful predictor of support for changes in how inflation is targeted. It highlights the fact that public trust and application of CBDCs are taking a more prominence in shaping economic policies such as inflation targeting. Prasad (2019) points out that, monetary authorities will have to re-evaluate traditional policy tools in order to respond to the digital transformations in the global economy.

Comparative Analysis: U.S. vs. Emerging Economies

The U.S. response to liquidity traps, digital currencies, as well as inflation targeting is being thoroughly developed while dynamics in emerging market economies are significantly different. According to Stanley (2017) and Zafar (2023), emerging economies face contrasting problems on the path to digital currencies and inflation targeting. Being the emergent markets, their economies are often more volatile and financial system is also much weaker, which often makes it difficult to implement the policies like inflation targeting.

Sastry (2020) and Butt and Yazdani, (2023) state that the adoption of such digital currencies occurs at different rate in emerging markets like China and India as they depend on economic stability and public trust in financial institutions. In comparison, advanced economies such as the U.S. have the advantage of an economy that is more stable and stable financial system to allow for the introduction of innovative monetary tools, e.g. CBDCs, without the same risks. The difference in economic environment emphasizes the need for differentiated monetary policy in different kinds of economies.

The Role of Financial Globalization and Digital Innovation in Shaping U.S. Monetary Policy

The financial globalization along with the advent of the Digital innovations have transformed the U.S. monetary policy in a fundamental way. Inevitably, as the world tightens its bonds, so does the U.S. not only react to domestic economic pressures but also adjust to global financial movements and the quick sprout of new digital currencies. New financial technologies like Central Bank Digital Currencies (CBDCs) and private digital currencies raise new questions to traditional monetary frameworks and cajole central banks to confront the question of how they should operate policy such as in the realm of inflation targeting, to their framework.

Financial Globalization and U.S. Monetary Policy

The introduction of financial globalization has brought with it new complexities to the manner in which U.S. monetary policy is conducted because of interdependencies in the economies between countries and the fact that any monetary action taken by other major economies has a larger impact on the U.S. economy.



According to Lombardi et al. (2019), the days of the integration of the financial markets globally are here as the use of unconventional monetary policies are more and more common and it includes, the Quantitative easing and the negative rates. In the context of emerging markets, decisions of the U.S. Federal Reserve must often accommodate to spillover effects of its policy actions on the global economy, since its actions often have ripple effects on currency and capital flow volatility (Heise et al., 2019).

In the context of these interconnections between the world's markets, it is important to know how the global financial environment is affecting the U.S. policy. According to Stanley (2017), emerging market economies that include many offering digital currencies and inflation targets tend to face different challenges than any U.S. advanced economies. These results are contrasts exemplify the difficulty of crafting a bigger monetary policy that balances both domestic economic interests and international economic integration at the global and domestic level.

Digital Innovation and the Future of U.S. Monetary Policy

Digital innovation plays an important role in the coming transformation of the future of U.S. monetary policy. Central banks and especially the U.S. Federal Reserves are rapidly beginning to discuss digital currencies, most particularly CBDCs. As Prasad (2018) points out, central banks throughout the world are exploring digital currencies as a potential tool to enhance the monetary policy transmission and the financial inclusion. Given the influence of the U.S. on global financial markets, the U.S. is keen on understanding the implications of digital currencies to its economic landscape. On this basis, the introduction of a digital dollar could radically change the liquidity management and give the Federal Reserve a straight tool for monetary intervention bypassing the traditional interest rate mechanisms (Ryan-Collins, 2023).

The challenges of privacy concerns and the acceptance by the public discussed by Jiang et al. (2022), which is also discussed below. Key to public trust in the central banks' ability to govern digital currencies is the lack of confidence over the security and privacy of digital transactions that continue to shape public opinion. CBDCs may help provide a solution for prevailing crises and liquidity traps, according to Das et al. (2022), due to the challenges of monetary policy independence and the consequential undermining of the traditional banking system, CBDCs may not prove as popular as previously assumed.

The Intersection of Digital Currencies and Financial Stability

Another important question that is thrown into the picture is of financial stability for these digital currencies. Fakieh (2018) mentions that private digital currencies are already changing the way global financial system operates, in a high exclusion from finance areas. In the U.S, private cryptocurrencies such as Bitcoin and Ethereum remain largely unregulated, which exposes the financial stability to a risk in the event these cryptocurrencies begin to play a major role in the economy. Central Bank Digital Currencies (CBDCs) retain the benefit that central banks can maintain control over monetary policy while limiting the associated risks from unencumbered digital currencies.

It is important for inflation targeting policies for CBDCs to be introduced in the U.S. According to Prasad (2019), the adoption of digital currencies can enable the Federal Reserve to undertake more focused and strategy monetary experiments, direct control over the digital currency supply, giving it another way to achieve its inflation targets without using more common and possibly less supplementary techniques such as modifying interest rates. It would be helpful in an environment of a liquidity trap scenario, where the conventional tools have shed their effectiveness (Kaseeram et al., 2012).

Comparative Analysis of the U.S. and Emerging Markets

The dynamic of the emerging market is quite different from financial globalization and digital innovation that offer opportunities in advanced economies such as the U.S. According to Zafar (2023), emerging markets face greater challenges in the implementation of digital currencies and this is because they have lower levels of financial literacy and weaker institutional structures as well as more volatility. The successful implementation of CBDCs in countries like Brazil, China and India are dependent on their financial and technological infrastructure limitations as well as lack of complete trust in the existing financial system. The U.S. is better situated to introduce CBDCs and has to overcome the policy and public concerns related to this kind of innovation (Bernake et al., 2017).



As Akyüz (2017) suggests such advantaged status (i.e., U.S. and other advanced economies) gives way for them to be the ones adopting and leading in the development of digital currency along with new monetary policies emerging technologically designed. The importance that the U. S. should attach to following the evolution in the emerging markets is that of learning about the wider consequences ensuing from the increasing degree of financial integration and of the effects of the policy changes in the monetary area on the stability of the global economic (Butt & Umair, 2023).

Policy Recommendations

Based on the findings, the following policy recommendations are made:

1. **Reevaluation of Inflation Targeting:** Given the public is unsure what the 2% inflation target means, the Fed should reconsider what an inflation target can and does mean in the face of tech innovations and digital currencies.
2. **Enhanced Public Education on Digital Currencies:** The findings from Table 3 also suggest that public education on the benefits and risks of the new monetary tools is needed as the mixed perceptions of the CBDCs and digital dollars adoption. Public trust in the Fed's ability to steer through the transition to a more digital financial system would be improved by this.
3. **Adapting Monetary Policy to Financial Innovations:** The central banks need to be flexible in adjusting the monetary policy frameworks to accommodate this new technology. That will require collaboration with global financial regulators to set the same guidelines on the use of digital currency.
4. **Comparative Policy Analysis:** A contrast should be made between how U.S. policy responds to liquidity traps and digital currencies with their responses in emerging markets. This will demonstrate the difference in effectiveness of monetary policy across economies and result in the specific recommendations for different economic situations.

Conclusion

This research has performed an in-depth analysis of the nature of the challenges and opportunities facing U.S. monetary policy, in relation to its liquidity traps, digital currencies and its inflation targeting. These findings highlight the fluid nature of economic policy as the US seeks its way in a multiplicity of economic space, in which traditional tools have failed their employers and financial technology is in the process of becoming an innovative solution. In these times of new economic pressures around the world it is even more apparent that the conventional tools of the Federal Reserve—mainly interest rate adjustments—are not always of sufficient effectiveness to spur economic activity, especially under times of economic stagnation or low growth, as they are called “liquidity traps.”

This study emphasizes the advantage of Central Bank Digital Currencies (CBDCs) for US monetary policy. Digital currencies continue to attract a great deal of attention as the method by which monetary policy and liquidity will potentially increase control over it. Support for a digital dollar as a liquidizer mechanism to mitigate the effect of a liquidity trap as digital dollar could circumvent the limitations of interest rate adjustment. Acceptability of them hinges on concerns of privacy, financial stability and disruption of the existing banking system. It is shown that their implementation will be facilitated by strong regulatory hurdles and public suspicion and they will not fully solve the problems of large amounts of cash.

Another important topic that concerns the issue of inflation targeting in the U.S. is. While the current 2% inflation target has completed its task as a price stability tool well, there remains the prospect that this tool is not fully well adapted to the evolving economic landscape, especially in addressing the new challenges brought by digital currencies. There is greater acknowledgement that the inflation targeting frameworks need to be transformed in order to adjust to new economic oxymoron such as the future of paying by digital currencies that can affect the span of inflation. As the Federal Reserve experiments with integrating these new tools into its policy arsenal it also needs to think carefully about whether existing targets continue to suit or whether changes need to be made to ensure the long-term economic stability.

This study highlights that financial literacy is key to the shaping of public supports of U.S. monetary policy. People with a higher degree of financial literacy are more likely to have a more optimistic position of the economy and are also more prone to support innovations like CBDCs. This is evidence why we need to encourage more financial education so that people can know what these can bring in terms of benefits or risks



in relation to digital currencies and also the shift in monetary policy. For the public to trust in the Fed's role and responsibility in changing the monetary policy framework including the introduction of digital currency, public trust on the Fed would be important.

The comparison between U.S. policy and emerging markets allows to see that while the U.S. is in a good position to use these innovations because of its superior financial infrastructure, the learning from the former can be useful. It is common for economies with these economies to have more severe challenges when adopting digital currencies, financial inclusion, technological infrastructure and public trust. There are global trends affecting the digital financial systems and monetary policy that the U.S. must be aware of, since the U.S. cannot escape the impact of the trends on U.S. policy to some extent, in this regard, the issue of digital currencies and its impact on global financial stability.

This study suggests that monetary policy is evolving as a result of both technological change and global financial integration and now the United States is at a crossroads in the case of US. In a world as increasingly digitalized as the currency and financial innovations are shaping the character of future monetary systems, the Federal Reserve must find its pace in adopting trendy instruments and maintaining economic stability. Adaptive policy frameworks will be needed that are responsive to rapidly changing factors on the global level but that at the same time keep the U.S. economy robust with respect to both domestic and global economic challenges.

The digital currencies' potential to disrupt U.S.'s monetary policy is promising but their adoption must address risks. In the midst of exploring inflation targeting strategies, CBDCs are being introduced and monetary policy goals will then have to be reexamined. With these innovations not only in the United States but in the world, it will be important for the Federal Reserve to consider the public perception, what is happening across the globe and the economic implications as we continue to walk through this increasingly interlinked and digital world.

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