

Federal Reserve System: Federal Reserve Bank of St. Louis

January 1, 2013

How Low Can You Go? Negative Interest Rates and Investors' Flight to Safety

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Summary

Negative interest rates fascinate both professional economists and the public. Conventional wisdom is that interest rates earned on investments are never less than zero because investors could alternatively hold currency. Yet currency is not costless to hold: It is subject to theft and physical destruction, is expensive to safeguard in large amounts, is difficult to use for large and remote transactions, and, in large quantities, may be monitored by governments. Currency does not provide even a logical zero floor for market interest rates.

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Recommended Citation

Anderson, Richard G. and Liu, Yang. "How Low Can You Go? Negative Interest Rates and Investors' Flight to Safety." *Federal Reserve System: Federal Reserve Bank of St. Louis*,

January 1, 2013.

<https://www.stlouisfed.org/publications/regional-economist/january-2013/how-low-can-you-go-negative-interest-rates-and-investors-flight-to-safety>.