

Abstract: This paper builds a simple general equilibrium model which realizes the nominal interest rate on reserve deposit below zero. In this model, banks hold cash and reserve deposits to create lending and credit services. If reserve deposit holdings can create both lending and credit services but cash holdings can create only lending services, the lower bound of the nominal interest rate on reserve deposit can be negative. The lower bound of the reserve rate is endogenous, which depends on the quantity of high-powered money.