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THE ROLE OF MACROECONOMIC DISCOURSE IN SHAPING INFLATION VIEWS: MEASURING PUBLIC TRUST IN FEDERAL RESERVE POLICIES

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Abstract

This study examines the systemic shifts in the complexities and possibilities in enforcing US monetary policy since the 1930s, focusing on the liquidity trap, digital currency, and inflation targeting. This includes a case study of public perception of the effectiveness of the Federal Reserve's policies and the adjustment of Central Bank Digital Currencies (CBDC) to foundational macroeconomic problems such as managing liquidity and controlling inflation. Data was collected through a quantitative survey of US residents concerning their perceptions of the existence of liquidity traps, support for modifying the inflation-targeting framework, and extending interest rate manipulations in view of digital currencies. To analyze the demographic profile's impact on economic sentiment, financial literacy, trust in the Federal Reserve, and the interrelations, more complex statistical analyses were employed: Chi-Square tests, T-tests, ANOVA, and regression models. It indicates significant support for the implementation of digital currency, however most concerns still related to privacy, financial stability, and public acceptance. The study also concludes that new financial innovations or changes in existing ones need correction in the inflation targeting strategy. This study contributes to the debate regarding the evolution of monetary policy and the changes it requires in order to address contemporary economic issues.

Keywords: U.S. monetary policy, liquidity traps, digital currencies, Central Bank Digital Currencies, inflation targeting, public perception, financial literacy, economic sentiment, Federal Reserve

Introduction

One of the major contributors to global innovation in finances, the United States has a strategic impact both directly to her economy as well as to nearly every financial system around the globe. Indeed, the U.S. has been going through some very complex economic problems, working around the effectiveness of the U.S.'s traditional monetary policy tools. The greatest difficulties are the liquidity traps, the digital currency, and how inflation targeting operates. These problems are not specific to the U.S., but are common to all advanced and emerging economies. Nevertheless, the answers to these problems will fundamentally differ for each of these economies, with varying structures and challenges.

A liquidity trap is one of the most impactful limitations on effective monetary policy during periods of economic stagnation. When interest rates are nearly zero, they are almost at the zero lower bound, which means that policies that rely on the alteration of interest rates have crossed into a liquidity trap; cash is

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available but demand is not just stagnant, but on life support, meaning all activity has halted. This is where central banks such as the Fed find difficulty in using traditional methods to stimulate economic growth because in a demand for money, the Fed can only offer to give out bank reserves at exorbitant interest rates. Benhabib et al. (2002) researched how liquidity traps affect conventional monetary policy, at least when an economy is at, or below its interest rate-zero threshold. The tributary set of these traps has always been below public expectation on their effectiveness and public support for a time during most of the so-called liquidity crisis. Holding the center of gravity for global financial markets, the US economy suffers the consequences of these traps even when other economies, those of emerging markets, happen to experience similar straits.

The pace at which digital currencies are evolving has led central banks in the United States, Europe, and China to rethink how a monetary authority's policy framework could operate in the digital era. In his work, Prasad (2019) considers the implications of financial technology on monetary policy and mentions the possibilities of Central Bank Digital Currencies [CBDCs] as new avenues for central banks to address liquidity challenges without having to implement traditional interest rate reductions. Apply United States in global finance context. Add cites He continues, posits in CBDC context. Conduct further research to understand this topic. Further, add introduction to the topic. Focus more on literature around it.

The U.S. is beginning to contemplate the idea of a digital dollar as a way to supplement the already over-stretched monetary policy and to defend the financial system. Increasing financial inclusion through CBDCs, elevating the management of liquidity, broadening the instrument of commands central banks have over monetary policy, deeming it as a more rational structure. With evident advantages, CBDCs disadvantageous aspects of privacy, the stability of acceptance of the financial system, and public precedent impede its adaption.

The degree to which inflation targeting works as a policy instrument has been put into question. Historically, the United States has been on record to pursue a 2% inflation policy, which is believed to achieve price stability and stimulate growth simultaneously. As Prasad (2018) pointed out, and so many others, such a target may prove less suitable for some new economic conditions brought about by the globalization, financial innovations, and the dominance of digital currencies. Kokores (2023) argues that the problem now is how to make traditional systems of inflation targeting flexible enough to cope with the relations of money and economy in the digital world. The system's ability to control the money supply and interest rates suggests that there would be an indirect credibility and effectiveness deficit of the traditional inflation targeting policies. This scenario, however, will compel an adjustment towards proven and productive strategies.

The intersection of these challenges (liquid traps, new digital currencies and the ever-prevalent need to target inflation correctly) shows a picture that requires attention in relation to economic policy of the U.S. However, the international financial system is transforming at a lightning speed. Although the U.S. has been leading the way in adopting and integrating new financial technologies, it is not possible for U.S. financial innovation to be the centerpiece of the entire system. Therefore, the U.S. cannot simply consider its domestic economic context in isolation without paying due consideration to the level of global financial integration and the adoption of digital currency by other countries, particularly the developing countries. Emerging markets as Zafar (2023) notes under cite, have different problems that makes it difficult for them to engage with these innovations and serves as a lesson for more advanced economies such as the U.S.

This paper aims to explore the new dimensions of American monetary policy with liquidity traps, the rise of digital currencies, and the success of inflations targeting policy within the framework of U.S. parameters and the global economic ecosystem. In particular, the case study analyses how the U.S. can adapt its monetary policy frameworks strategies to a more dynamic context and still maintain sustained functionality and performance. This study also analyzes the policy choices of the United States alongside a developing economy considering both face common global challenges but take different stances toward the adoption of digital currency and inflation control.

This research will greatly enrich the debate of both private and central banks on economic stability of the United States as policymakers face the realities of financial integration, digital advances, and pliable

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governance. This research will argue that central bank digital currencies (CBDCs) are a prospective remedy to an illiquid world with liquidity traps; the U.S. monetary authority must take bold steps beyond conventional policies to supportive framework of growth and stability.

Methodology

This study intends to resolve the specified issues utilizing the quantitative approaches concerning public perception of U.S. monetary policy dealing with liquidity traps, digital currencies, and inflation targeting. The examination was conducted with the aim of acquiring responses from a nationally representative sample within the United States, where they used advanced statistical approaches to analyze the relations among the key variables, specifically: trust in the Federal Reserve, financial literacy, and support for policy change. The assessment of public opinions and their statistical relevance were collected through opinion polls, rated questions, checklist-type questions, and open-ended formats.

Research Problem and National Importance

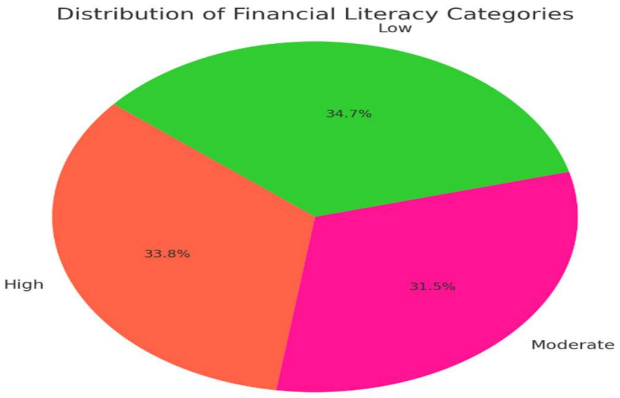
The problems posed by U.S. monetary policy, such as dealing with liquidity traps, primarily focus on maintaining inflation targets, are constantly evolving. The rise of new financial technologies, including Central Bank Digital Currencies (CBDC), has altered the role of the U.S. Federal Reserve as the nucleus of economic stabilization. The current study aims to assess public opinion regarding these new regulatory mechanisms and their impacts and contributions to the effectiveness of traditional monetary policies. This research is critical for the United States because it is in an environment of low interest rates, potential economic downturns, and the emergence of digital currencies that threaten to alter the economic paradigm. If the public opinion related to these matters is understood, the challenges posed by these emerging issues, including low interest rates, can be intelligently managed along with the stabilization of the economy through robust monetary policy.

Population and Sample

For this research, the targeted population also encompasses U.S. residents in order to have a more complete and representative sample with respect to demographic characteristics. The study examines other aspects such as age, educational attainment, occupation, and financial literacy. To obtain data from what is hoped to be a representative sampling of 400 participants, a convenience sampling technique was employed. This sample captures individuals from different age cohorts (18 to 65+ years) to examine the generational differences on the perception of monetary policy as well as financial technologies. The sample in terms of education level includes high school through graduate degree holders in order to examine if there is a relationship between financial literacy and experience with digital currencies and inflation. In addition to the occupations, the sample consists of a diverse group such as academics, business people, financial sector, government, and ordinary citizens, allowing for rich cross-sectional data along professional lines and varying with respect to exposure to different economic policies.

Figure 1

Distribution of Financial Literacy Categories



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Data Collection

An electronic questionnaire was created to capture respondents' views about liquidity traps, inflation targeting, and digital currencies. Participants were asked about their understanding of liquidity traps; whether they thought a liquidity trap was occurring in the U.S. at the moment and what their expectations were about the U.S. monetary policy outcome in containing these problems. Participants expressed their views on the possibilities of the Central Bank Digital Currencies (CBDCs) overcoming the liquidity traps and on their support towards the adoption of a digital dollar and the associated challenges—privacy, public acceptance, and financial stability. The survey included questions regarding the public perception in regard to the Federal Reserve putting a 2 percent inflation target and how flexible that target should be with an introduction of digital currencies. The survey included items on a Likert scale designed to capture the level of agreement with statements concerning the effectiveness of monetary policy and a set of closed-ended questions concerning these economic issues.

Statistical Analysis

The computation of the statistical methods from the survey and their analyses was done on IBM SPSS Statistics. To provide a summary on the sample's demographics and opinion, descriptive statistics based on the frequency, percentage, and mean score were computed. Chi Square tests were conducted to find out whether these categorical variables; occupation and belief of the Fed's capability to solve liquidity traps, associate with each other. Like trust in the Fed across different age groups, a test was run to assess whether or not support to digital currencies would be influenced by financial literacy. Trust in the Fed and the economic outlook were analyzed for correlation alongside the other variables: financial literacy and the hypothesized side variable. Trust in the Fed, perception of CBDCs, financial literacy, and their interrelationships were examined with the dependent variable being the change in inflation targeting using multiple regression analysis.

Ethical Considerations

The design of the study was grounded on ethical considerations as well. Insofar as the participants completing the questionnaire were concerned, they were informed regarding the aims of the study and their consent was procured. Therefore, no personal identifying information was collected and all participants remained confidential, as no names were required for the study. They were also offered assurances that only the research experiment would be performed and that complete withdrawal from the study would incur no penalty at any stage during the research process.

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.

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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%) or 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/Policymaker	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 because for the liquidity trap, 26.3% said it was ineffective monetary policy and 26.0% said low interest rates. In addition, 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

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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%
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 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 skeptical 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).

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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 DC	Privacy Concerns	108	27.0%
	Financial Stability Risks	95	23.8%
	Implementation Costs	89	22.3%
	Public Acceptance	108	27.0%
Likelihood of Using a Fed-Issued DC	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%

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	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 cutoff 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. 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.

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**		

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. 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).

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**			

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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. 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.

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**			

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

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**			

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. 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.

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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**			

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. 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.

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**			

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		

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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

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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 DC	SD	F-Statistic	P-Value
Academic/Researcher	3.7	1.0	4.12	0.029
Business Owner/Entrepreneur	4.2	0.9		

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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) (β = 0.40), financial literacy (β = 0.35) and age group (β = 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

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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 0 implies that conventional monetary policymaking tools, as interest rate adjustments become ineffective. Benhabib et al. (2002) note that in such circumstances central banks may 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 studies that are more 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 that 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%

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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 & 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 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 Reserve, 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

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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) remain, 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.

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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

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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 also 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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