Japan experienced two decades of low growth and deflation during 1992-2012. This lecture describes and analyzes how Japan exited its *Lost Two Decades* (1992-2012). How did Japan fall into two decades of stagnation and fifteen years of deflation? How has *Abenomics*, the economic policy package introduced in December 2012, lifted the economy out of stagnation and deflation? What challenges remain? What lessons can the U.S. and other advanced economies learn from Japan? Japan’s “Lost Two Decades” (1992-2012) is a result of internal shocks (bubble burst), external shocks (global financial crisis), and a series of policy errors. Shinzo Abe, inaugurating his second premiership in December 2012, introduced a package of economic policies consisting of aggressive monetary policy, flexible fiscal policy, and structural reforms as a growth strategy. His policy package was dubbed *Abenomics* and its three principal polices *Three Arrows*. *Abenomics* has worked to lift the economy out of stagnation and deflation. By the end of 2018, the Japanese economy was keeping up at its potential growth rate with wide-spread labor shortages and a strictly positive inflation rate. However, the potential growth rate itself still remains low and real wages have hardly risen. The 2% inflation target has not yet been achieved since Governor Kuroda, Bank of Japan, introduced quantitative and qualitative easing (QQE) 6 years ago. In order to raise and sustain the potential growth rate and real wages, Japan needs to (1) overcome the declining working age population; (2) raise labor productivity by innovation; (3) encourage formation of new corporations; and (4) regain fiscal disciplines. This lecture is based on Chapter 14: *Lost Two Decades in Japanese Economy*, 2nd edition, MIT Press, forthcoming (2020), by Takatoshi Ito and Takeo Hoshi.

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