



Journal of Economic Perspectives

ISSN 0895-3309 (Print) | ISSN 1944-7965 (Online)

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Crisis and Responses: The Federal Reserve in the Early Stages of the Financial Crisis

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JOURNAL OF ECONOMIC PERSPECTIVES

VOL. 23, NO. 1, WINTER 2009

(pp. 51–75)

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Article Information

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Abstract

Realizing that their traditional instruments were inadequate for responding to the crisis that began on August 9, 2007, Federal Reserve officials improvised. Beginning in mid-December 2007, they implemented a series of changes directed at ensuring that liquidity would be distributed to those institutions that needed it most. Conceptually, this meant America's central bankers shifted from focusing solely on the size of their balance sheet, which they use to keep the overnight interbank lending rate close to

their chosen target, to manipulating the composition of their assets as well. In this

paper, I examine the Federal Reserve's conventional and unconventional responses to

the financial crisis of 2007–2008.

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Cecchetti, Stephen G. 2009. "Crisis and Responses: The Federal Reserve in the Early Stages of the Financial Crisis." *Journal of Economic Perspectives*, 23 (1): 51–75.

DOI: 10.1257/jep.23.1.51

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JEL Classification

E32 Business Fluctuations; Cycles

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