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# When Safe Proved Risky: Commercial Paper during the Financial Crisis of 2007-2009

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### Abstract

Commercial paper is a short-term debt instrument issued by large corporations. The commercial paper market has long been viewed as a bastion of high liquidity and low risk. But twice during the financial crisis of 2007-2009, the commercial paper market nearly dried up and ceased being perceived as a safe haven. Major interventions by

the Federal Reserve, including large outright purchases of commercial paper, were

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important developments during the crisis of 2007-2009. Last, we discuss three explanations of the decline in the commercial paper market: substitution to

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alternative sources of financing by commercial paper issuers, adverse selection, and institutional constraints among money market funds.

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**G01** Financial Crises

**G12** Asset Pricing; Trading volume; Bond Interest Rates

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**G32** Financing Policy; Financial Risk and Risk Management; Capital and Ownership Structure

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