



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 eventually used to support both issuers of and investors in commercial paper. We will offer an analysis of the commercial paper market during the financial crisis. First, we describe the institutional background of the commercial paper market. Second, we analyze the supply and demand sides of the market. Third, we examine the most 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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G23 Pension Funds; Other Private Financial Institutions; Institutional Investors

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

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