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Credit Supply Disruptions: From Credit Crunches to Financial Crisis*

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Abstract

It is useful to reflect on how the financial environment changed between the credit crunch episode of the early 1990s and the recent financial crisis. What did we learn from the earlier crisis, and how did the credit crunch literature help guide policy in the more recent crisis? Two important changes were the consolidation of the banking sector and the dramatic growth in nonbank financial intermediaries, which are much more susceptible than banks to liquidity risks because of a lack of deposit insurance. This article highlights that, although security broker-dealers, money market mutual funds, and issuers of asset-backed securities were not particularly important in the early 1990s, when the bank credit crunch occurred, they grew dramatically to become both major sources of financing and key elements in exacerbating the problems experienced during the recent financial crisis.

Keywords

financial crisis (/keyword/Financial+Crisis), credit availability (/keyword/Credit+Availability), financial intermediaries (/keyword/Financial+Intermediaries), liquidity (/keyword/Liquidity), shadow banking (/keyword/Shadow+Banking), financial innovations (/keyword/Financial+Innovations)

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