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

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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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