

**The Federal Reserve as Lender of Last Resort  
During the Subprime Crisis – Successful Stabilisation  
Without Structural Changes**

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**Abstract.** This paper studies the actions of the U.S. Federal Reserve Bank (FRB) during the financial crisis from 2007-2012 rating the performance of the Federal Reserve during the crisis. The chosen scoring model approach shows that the average performance of five specific measures taken by the FRB only ranks between fair and good. Comparing Stiglitz (2010) viewpoints with those of the FRB, this paper analyses several policies and events and argues that the resulting decisions were well intentioned but that the outcome was different from expectations because of missing regulations and restrictions. Furthermore, the structure of the FRB is examined and criticized.

**Keywords.** Asset bubbles, Federal Reserve Bank, Scoring model, Financial crisis, Monetary policy, Regimes of growth.

**JEL.** E42, E58, G18, E65.

## 1. Introduction

The subprime crisis that started in 2007 in the United States can be seen as the worst financial crisis since World War II (Dullien, et al., 2011). It is necessary to understand how it developed and if the responses following the outbreak of the crisis were correct. In the first section, the development of bubbles and financial crises in general are discussed. In the second section, the developments which led to the subprime crises are analysed. In the main part of the paper, section three, the responses of the U.S. Federal Reserve Bank (FRB) after the outbreak of the crisis until early 2012 are discussed; especially the first wave of extraordinary policies by the FRB is analysed. The long-term quantitative easing policy and comparisons with other central banks' policies are not explicitly covered in this paper.<sup>1</sup> The last section concludes.

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