Fed decisions essay

Business, Strategy

The economic crisis started in the 2007 with the subprime crisis and the following credit crunch is still deeply affecting the decisions of the Federal Reserve in terms of monetary policy. Moreover, the Federal Reserve is very concerned by the actual European Sovereign Debt Crisis, which started in Greece in the 2010 and spread all over European Union, in particular in the countries so-called PIIGS (Portugal, Ireland, Italy, Greece and Spain). The European Crisis is affecting the overall growth of the Global Economy and it is somehow affecting the behavior of investors. In particular, global investors seem to follow a behavioral bias called “ herding”, which means that those investors tend to invest according to market news more than following fundamental analysis. This bias increases the volatility in the markets and brings uncertainty about the future economic growth.

The Federal Reserve, since the 2007 adopted a monetary policy which can be defined as a “ Neo Keynesian strategy”. In particular, the head of the Federal Reserve, Ben Bernanke decided to lower the interest rate level to a value near zero percent and to keep this level at least until the 2014. Moreover, Bernanke decided to take a strong monetary policy which is called “ Quantitative Easing”. This strategy means that the Federal Reserve repurchases sovereigns and corporate bonds and injects the market with more liquidity. This strategy aims to avoid a credit crunch between the banks and firms and a following “ depressed economy” (similar to the one of the Great Depression of the 1929) where the growth is closed to zero and in the meantime the inflation rate becomes negative (deflation). The main target of the FED in the 2012 is to further support the economic growth through this monetary policy (called “ expansionist”) and to lower the unemployment rate. Overall, all the major global central banks (especially in the U. K.) seem to follow a similar strategy. In particular the European Central Bank, despite several critiques coming especially from Germany (which instead prefers a fiscal austerity over a growth supported by the injection of more liquidity), seems to have recently adopted a similar strategy (through the so called LTRO operation).

References

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