Monetary policy in 2007 recession

Literature, Russian Literature

Monetary Policy in 2007 Recession The Federal Reserve Bank employed monetary policy to protect the United s from plunging into inflation. Fundamentally, the monetary policy encompasses the action taken by central banks or regulatory committees to attempt to control the size and availability of money. The policy targets the interest rates with the intent of spurring economic growth, as well as, maintaining the financial stability of a nation (Carvalho, Eusepi, & Grisse, 2012). During the 2007, the monetary policy spurred the United States economic development and averted the imminent financial crisis. Notably, the monetary policy influenced the cost of credit and circulation of money. The heightened control of the availability of money promoted a healthy economy amidst the terrible crisis that threatened to reverse the gains the United States had achieved. The Federal Reserve Bank employed vibrant measures of boosting the economy by lowering the interest rates and skillfully controlling the amount of the bank reserves and offsetting the monetary shocks including the financial panic (Blinder & Zandi, 2010). In this respect, the monetary policy averted the economic collapse in the United States amidst panics over the solvency of numerous financial institutions.

The Federal Bank adopted a comprehensive action plan that encompassed the lowering of the interest rates. The zero-rating of the interest coupled the decrease in the rates. The bank bought the Treasury bonds, as well as other securities in order to cut the long-term interest rates. In concerted efforts with the Federal Deposit Insurance Corporation that increased the deposit insurance limits, the Federal Bank spearheaded the actions of putting a downward pressure on the long-term interest rates (Blinder & Zandi, 2010).

The action was instrumental in facilitating the households and businesses to borrow funds. In this respect, the Federal Bank made the money available for the citizens and businesses to acquire during the severe 2007 economic downturn. In essence, the adoption of the monetary policy spurred aggregate demand and the revitalized real economic activities. Arguably, the policy cushioned the US economy from plunging into unprecedented inflation. The significant tightening of the monetary policy by the Federal Reserve influenced faster economic recovery during the 2007 financial crisis (Carvalho, Eusepi, & Grisse, 2012). The policy shaped the aggregate demand in the United States.

The actions of the Federal Bank to lower the interest rate during the 2007 recession boosted borrow and spurred consumption, as well as investment. The low and zero-rated interest rates made borrowing and investment attractive for the households and businesses. Counterarguments might hold that the real cost of borrowing funds informs the investment decisions as opposed to zero-rating of interest and expansion of credit. However, the monetary policy, which the Federal Reserve utilized in the 2007 recession, spurred borrowing and investment. Notably, the decrease in the rates expanded credit and sought to encourage many households to borrow funds for domestic consumption (Carvalho, Eusepi, & Grisse, 2012). Hence, the Federal Reserve influenced the economic growth in US through the manipulation of the nominal interest rates. In essence, the monetary policy cushioned the United States from entering into unprecedented financial crisis and inflation. The economy grew, and the nation regained its economic position in the globe.

The topic has indicated that the monetary policy can be an essential economic tool that can avert economic crises. It is important for the nations to adopt vibrant monetary policies in order to avoid undesirable economic consequences. If the United States did not swiftly utilize the demand-side policies, the nation would have plunged into a financial crisis. Therefore, the central banks should always endeavor to avert such crisis using monetary policies.

References

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