

2008 ECONOMIC DEPRESSION.

Your Name:

ECO 202:

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Policies at the Beginning.

- The initial sign of the 2008 depression was the halt of purchasing securities backed by subprime mortgage.
- This policy did not have a major negative impact on macroeconomics in February 2007 and the following six months.
- The Federal Open-Market Committee (FOMC) had a 5.25% interest rate on banks to access federal funds.
- This denied banks liquidity and made the banks to deny their customers credit using mortgage-backed securities.

Actions During the Period.

- Enactment of Economic Stimulus Act of 2008. Low and middle income families earning between \$300-\$1200 were offered tax rebates.
- ESA 2008 enabled reduction of aggregate demand as the low income families used the rebates to pay their debts or increase their savings.
- Households with adequate savings or credit facility calculate their consumption budget using their lifetime earnings but not those of the current year.
- Rebate associated spending encouraged the slight growth of GDP in the second quarter of 2007.

Actions During the Period

- The Federal Reserve adopted Term Securities Lending Facility (TSLF) on March 11, 2008.
- This policy enabled banks to use securities backed by prime grade mortgage for to access extra liquidity for a single month.
- The same policy helped non-bank financial businesses to access liquid bills from treasury through Primary Dealer Credit Facility
- The policy also lowered the Federal Open-Market Committee (FOMC) 5.25% interest rate charged on banks to 2.25%.

Actions During the Period

- Enactment of Emergency Economic Stabilization Act of 2008 on October, 2008.
- This act helped the Federal reserve to obtain \$700 billion that was to be used to purchase mortgage-backed securities from banks.
- The program was referred to as Troubled Asset Relief Program (TARP) and enabled the banks to get rid off the huge mortgage-backed securities burden.
- The impact of this policy was increased liquidity to banks and revival of companies such as General Motors and Chrysler which were financially crippled.
- In October, 2008, the Federal reserve created the Term Asset-Backed Securities Loan Facility (TALF) of \$ 200 billion to encourage lending and widen market for mortgage-backed securities.

Actions During the Period

- In October, 2008, the Federal reserve created the Term Asset-Backed Securities Loan Facility (TALF) of \$ 200 billion to encourage lending and broaden market for mortgage backed securities.
- The final change of policy during the 2008 recession was the reduction of the target federal-funds rate to 0-0.25%.
- This was effected on December, 2008 with an aim of stimulating the economic growth.
- Banks were able to have more cash to provide credit to businesses and individuals.
- This policy also helped banks to start issuing asset-backed loans as banks could not initially be able to secure loans using mortgage-backed securities.

References

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