Central Bank Programs

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1. Federal Reserve Tools for Managing Rates and Reserves

- Pre-2008 world:
  - Fed manages the supply of reserve balances to target the overnight rate
  - Reserve balances are small, and reserves are non-interest bearing
- Post-2008 world
  - Reserve balances large and pay interest
  - Fed manages overnight rate with IOER

I. More

- More tools:
  - Term deposit facility
  - Reverse repo facility
  - Fixed rate/full allotment versus fixed quantity
- More than monetary policy
  - 3-month TDF ≈ 3-month Treasury bill (Fiscal Policy)
- More than deposit taking banks
  - 3-month Reverse Repo with non-banks

1. How to manage all of this?

- Main result: RRPs are a powerful tool

- Two important things to add to the mix before coming to conclusions
  - Non-banking sector issues
    - MMF sector is frictionless in model..
  - Treasury debt management
    - RRP $\approx$ Treasury Bill

2. The Federal Reserve's Discount Window and TAF Programs: "Pushing on a String?"

- Discount Window, Term Auction Facility =
  $221 billion per day over the crisis

- Was the LOLR successful?

2. Facts

- Large and small banks used funds; small tended to be weaker
- Fed funds were used to displace private sources (“substitution)
- Banks that received funds appear to expand lending
  - Both to small and large firms
  - With no significant increase in credit terms for larger firms

2. Counterfactual

- Hard (impossible?) empirical question:
  - Can’t observe the counterfactual

- Did it prevent worse outcomes?
  - Maybe bank lending would have fallen if not for Fed intervention?

2. Central Banking going Forward

- LOLR: Liquidity not solvency
- S&L crisis, (maybe) Europe, Japan
- How to know in real time that intervention cures a liquidity problem rather than solvency problem?