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"Quantitative Easing in the Great Recession"

Introduction

Quantitative easing was a crucial part of the central banks' activity during the Great Recession of 2008-2009; for example, the US Federal Reserve starts using QE as an essential tool. This paper aims at finding how QE works, its implications on the global financial framework and issues related to it.

Quantitative Easing

Quantitative easing is a monetary policy process in which central banks buy up long-term securities including government bonds and mortgage back securities on the open market. This leads to an increase in the money supply, decrease in the interest rates and consequently triggers borrowing and investment.

Great Recession

In the Great Recession, standard measures such as cutting interest rates were powerless once the rates go to zero. To fix this, the Federal Reserve used QE as a way to introduce money back into the economy. Undoubtedly, purchasing gargantuan volumes of financial assets made the Fed set out targets of lowering the interest rates on borrowings and encouraging spending while eradicating deflation. This last intervention was very instrumental in rebuilding confidence in financial markets.

Conclusion

Analyzing the QE case during the Great Recession demonstrates the nature of how central banking employs unorthodox policy tools to deal with economic shocks. While QE was rather effective in alleviating some of the adverse impacts of the recession, at the same time it spawned much controversy over its impact for the global financial system into the future.

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