The monetary policy response to the financial crisis in the Euro area and in the United States: a comparison

Domenica Tropeano

Abstract

The paper aims at drawing a comparison between the reactions to the recent financial crisis by the European Central Bank and by the Federal Reserve. Though the tools used have been largely the same, the quality and quantity of the interventions has been very different depending on the different structure of financial markets in the two areas. In particular, the ECB has not replaced private markets that did not work any more as the Federal Reserve did. The policy design behind those interventions is different too. The Federal Reserve through the quantitative easing policy aims at lowering both short term and long term interest rates and has recently stated that this policy may continue in the future. The European Central Bank does not justify in this way its own interventions in the market and apparently seems not have given up its traditional goal, fighting inflation. The evolution of financial markets both in the U.S and in Europe after the crisis reflect different initial conditions and expectations for the future. Thus many differences in the structure of markets and in policy design exist. This, however, will not save Europe from the consequences of future disorders in the Us markets. The crisis spread to Europe largely because of the global dimension of the inter-bank market. Given that the interconnections between European and US banks have survived the financial crisis, nothing ensures that the same thing will not happen again.

Domenica Tropeano, Università degli Studi di Macerata.
E-mail: tropeano@unimc.it.