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## Finance and Economics Discussion Series: Arbitrage, Liquidity and Exit: The Repo and Federal Funds Markets Before, During, and Emerging from the Financial Crisis

By Morten L Bech

Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book \*\*\*\*\* Print on Demand \*\*\*\*\*.This paper examines the link between the federal funds and repo markets, before, during, and emerging from the financial crisis that began in August 2007. In particular, the paper investigates the initial transmission of monetary policy to closely related money markets, pricing of risk, and liquidity effects, and then shows how these could interact if the Federal Reserve removes the substantial amount of liquidity currently in the federal funds market. The results suggest that pass-through from the federal funds rate to the repo deteriorated somewhat during the zero lower bound period, likely due to limits to arbitrage and idiosyncratic market factors. In addition, during the early part of the crisis, the pricing of federal funds, which are unsecured loans, indicated a marked jump in perceived credit risk. Moreover, the liquidity effect for the federal funds rate, or the change in the federal funds rate associated with an exogenous change in reserve balances, weakened greatly with the increase in supply of these balances over the crisis, implying a non-linear demand for federal funds. Using these analyses, the paper then...


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