Teacher Answer Key

Case Study

1. TAF—seasonal and term loans to banks; CPFF—funded commercial paper; TALF—supported asset-backed securities, each targeting frozen credit markets.

2. Stress tests identified capital shortfalls; TARP injections replenished bank equity, ensuring solvency alongside liquidity measures.

Multiple Choice

1. D

2. B

3. C

Matching

1-E, 2-A, 3-D, 4-C, 5-B

Fill-in-the-Blank

1) rate, 2) Open, 3) capital

Short Answer (Sample Responses)

Q1: Paying interest on reserves a bank holds beyond what it has to keep gives that bank no reason to lend to another bank for less. That sets a floor the federal funds rate does not fall below.

Q2: Open market operations are the routine tool, buying and selling Treasuries to move bank reserves. In 2008 the Fed went further and stood up new facilities that lent straight to banks and to specific frozen markets, like the TAF, CPFF, and TALF.

Q3: Borrowing and trade around the world are done in dollars, so a shortage abroad becomes a problem at home too. Swap lines let other central banks hand out dollars during a squeeze before the strain spreads back.