REAL CLEAR POLICY

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Monetary Policy and the Subprime Boom

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It is widely believed that, in the wake of the dot.com crash, the Fed kept the federal funds target rate too low for too long, inadvertently contributing to the subprime boom. We attribute this and other Fed departures from a “neutral” policy stance to the Fed's failure to respond appropriately to exceptional rates of total factor productivity growth. We then show how the Fed, by adhering to a nominal GDP growth rate target, might have succeeded in maintaining such a neutral stance.

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George Selgin is Senior Fellow and Director of the Center for Monetary and Financial Alternatives at the Cato Institute