<https://www.investopedia.com/terms/g/great-recession.asp>

Recovery from the Great Recession

The aggressive [monetary policies](https://www.investopedia.com/terms/m/monetarypolicy.asp) of the Federal Reserve and other central banks in reaction to the Great Recession, although not without criticism, are widely

For example, the Fed lowered a key interest rate to nearly zero to promote liquidity and, in an unprecedented move, provided banks with a staggering $7.7 trillion of emergency loans, according to The Week, in a policy known as [quantitative easing](https://www.investopedia.com/terms/q/quantitative-easing.asp). Along with the inundation of liquidity by the Fed, the U.S. Federal government embarked on a massive program of [fiscal policy](https://www.investopedia.com/fiscal-policy-4689796) to try to stimulate the economy in the form of the $787 billion in deficit spending under the American Recovery and Reinvestment Act, according to the Congressional Budget Office.

In other words the Fed gave banks $7.7 trillion of emergency loans so the banks have actually loans to distribute and thus liquidity increases. Consequently, although we are expecting the liquidity factors to drop massively over the out of sample period that we include in part c, this may not be the case. Of course it shouldn’t be the same liquidity factors you have before 2008(technically 2007 because the Great Recession takes place from 2007 to 2009) since at that point the market was booming and liquidity was at its peak due to the fact that banks gave loans without many restrictions and people traded with “ease”. This was in fact a reason of the market collapse of 2008 because the lendees (the people who received the loans) were evidently not capable of repaying their mortgage loans. (not many details on how the housing market crisis was created since that’s not what we are interested in).

Some in sample dates that should be crucial to investigate:

1929: Black Tuesday (August)

1987: Black Monday (October)

1999-2001: Dot-com bubble ( Burst of bubble lasted from March 11 2000 to October 9 2002)

Extra question here: do we have information on the types of stocks in our portfolios are they considered to be tech stocks or doesn’t make any difference since tech stocks were not the only stocks that were affected

2008: Housing market crash

The Great Recession lasted from 2007 to 2009

Intuition: After 2009 market was stabilized although now our liquidity factors should be lower since banks were more restrictive on their loan policies hence not many loans were available and hence trade is not done at such an ease that was before 2008.

<https://faculty.chicagobooth.edu/lubos.pastor/research/fig_aggliq1.pdf> liquidity graph Pastor

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