

Abstract

**U.S. Stock Market Crashes and Their Aftermath:
Implications for Monetary Policy**

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Examining the behavior of the 20th century U.S. stock market, we explore the question when and how stock market crashes affect credit markets. We conclude that the key problem facing monetary policymakers is not stock market crashes and the possible bursting of a bubble, but rather whether the financial system is in a weakened state at the outset. The recent stock market collapse had little impact on interest-rate spreads because of the relatively strong condition of financial institutions. With a focus on financial stability rather than the stock market, the response of central banks to stock market fluctuations is more likely to be optimal.