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Editorial

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We have been witnessing an unprecedented financial and economic crisis. The crisis has been astonishing in terms of speed, severity, and contagion across financial markets and from them to the real economy. A number of crucial and uncharted questions are pressing hard on the agenda of policy-makers and academics. In this special issue of FMPM, we attempt to respond to the call for a better understanding about the causes and effects of the current crisis. Our endeavours address two main and related questions: first, how central banks have responded to the financial market disruptions; second, how markets respond to monetary policy.

To tackle the first question, the first three papers take the point of views of three different monetary authorities. Asani Sarkar provides a survey about the responses and the innovative tools put in place by the Federal Reserve (FED). He argues that both the credit risk and liquidity risk determined the crisis but in different manners and timing. He elaborates on under what conditions the FED's programs might be effective or not. Thomas Jordan, Angelo Ranaldo, and Paul Söderlind analyse the Swiss National Bank's monetary policy strategy, which is unique since it combines a balance between long-term objective of price stability and the pragmatic short-term flexibility of its implementation mechanism. They argue that this double nature allows a smoothed implementation of monetary policy in normal times and prompt effective responses in periods of distress. They also analyse the effects of the new

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facilities such as the central banks' swap lines adopted during the crisis. Tom Bernhardsen, Arne Kloster, Elisabeth Smith, and Olav Syrstad provide an analysis of the Norges Bank's experience during the crisis. The authors investigate the effects of traditional measures like monetary policy, as well as other facilities taken to improve banks' funding resources. They also analyse how the US money market premiums spill over to currency market. They show, among other things, that the developments on the forward exchange markets are important for understanding how the domestic money market premiums differ from the US money market premium. The effects of Lehman's collapse as well as of policy measures by the Fed and other central banks are analysed in detail.

Two papers address the second question, that is, how markets respond to monetary policy. Both are empirical analyses that encompass the recent period of the financial crisis. Asger Lunde and Allan A. Zebedee analyse the announcement effects of US monetary policy decisions on intraday volatility in the US equity markets. While the announcement effects on asset prices have been largely investigated in the literature, little is known about the link between unexpected monetary policy and stock market volatility. Two main results emerge. First, elevated (but short-lived) intraday volatility follows FOMC announcements. Second, volatility responds asymmetrically having larger spikes when expansionary monetary policy actions are implemented. Andros Gregoriou, Alexandros Kontonikas, Ronald MacDonald, and Alberto Montagnoli examine the impact of anticipated and unanticipated actions by the Bank of England Monetary Policy Committee (MPC) on UK sectoral stock returns. Before August 2007, the overall stock market returns reacted negatively to surprise increases of the interest rate, but the opposite is found for the credit crunch period. These results carry over to most sectors, but with important cross-sectional patterns.