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EDITORIAL

# Market interventions in times of financial crisis

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This special issue draws from papers presented at various INFER annual conferences. We investigate the market impact of a financial crisis and its implications. We not only consider financial markets, but also employ a macroeconomic view as well as a regulatory view.

This special issue begins with a paper by Fakhry and Richter that shows that financial crisis may cause financial markets to be inefficient due to over- and/or underreactions. Given this result, it may be questioned whether financial markets as a whole may actually be efficient. After all, if financial markets are only efficient in the good times, then this naturally calls for some form of intervention/regulation to prepare for the bad times.

To further this argument, Badarau and Popescu show that monetary policy alone cannot tackle both inflation and business cycles at the same time. So when the economy is in crisis, monetary policy may not be efficient. Indeed, the recent monetary policies of the Federal Reserve and the European Central Bank have shown that interest rate changes alone cannot overcome the crisis.

If this is the case then structural reforms may be needed for monetary and financial markets. Belke and Vogel investigate whether structural reforms are complements or substitutes to monetary policy. Similar to Fakhry and Richter, they find that good macroeconomic conditions facilitate structural reforms. In other words, it is easier to implement structural reforms when the crisis has not (yet) happened. However, this may not be politically convenient as a market intervention would have to be justified prior to anything going wrong. This in turn may cause some political resistance which may make it impossible to implement structural reforms.

If this argument holds, then the question is what can the government actually do in times of crisis? The paper by van Aarle et al. considers the impact of fiscal policies in Ireland during the recent financial crisis. They find that an expansive fiscal policy has a negative impact on debt, growth and unemployment. Given this result, together with an inefficient monetary policy, we need to focus on how a financial crisis can be

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prevented. The paper by Toader looks at high capital requirements within the Basle III framework. They find that higher capital requirements have a stabilising effect on the banking system and therefore financial markets. The question that remains is whether these measures will be enough. However, this is still ongoing research and may form the basis for a future special issue.