



(RESEARCH ARTICLE)



## Economic impacts of federal reserve policies on taxation and corporate finance

Eli Kofi Avickson <sup>1,\*</sup>, Jacob Selasie Attieku <sup>2</sup> and Obinna Barnabas Onyenahazi <sup>3</sup>

<sup>1</sup> *Department of Economics, Bowling Green State University, USA.*

<sup>2</sup> *Department of Accounting, Illinois State University, USA.*

<sup>3</sup> *Darla Moore School of Business, International MBA, University of South Carolina, USA.*

International Journal of Science and Research Archive, 2024, 13(02), 506–526

Publication history: Received on 30 September 2024; revised on 07 November 2024; accepted on 09 November 2024

Article DOI: <https://doi.org/10.30574/ijrsra.2024.13.2.2168>

### Abstract

Federal Reserve policies play a pivotal role in shaping the U.S. economy, influencing not only macroeconomic stability but also the financial strategies and tax implications for corporations. Broadly, the Federal Reserve's use of monetary tools—such as interest rate adjustments, Quantitative Easing (QE), and inflation targeting—affects the economic environment within which businesses operate, impacting costs of capital, investment incentives, and overall corporate behaviour. Through mechanisms like lowering interest rates, the Federal Reserve reduces borrowing costs, which encourages companies to adjust their capital structures and debt levels, with significant implications for tax planning due to interest deductibility. QE, on the other hand, drives asset prices higher, promoting increased investment activity, stock buybacks, and changes in dividend policies that indirectly influence corporate taxation. This article examines the nuanced relationships between Federal Reserve decisions and corporate finance, analysing how shifts in policy impact tax revenue and how governments adapt tax policies to manage economic conditions such as inflation. By presenting case studies from the 2008 financial crisis and the COVID-19 pandemic, this analysis illustrates the practical effects of the Federal Reserve's actions on corporate financial decisions and the broader tax landscape. The article concludes by addressing the future of Federal Reserve policies in light of technological advances in finance and the adaptive strategies that corporate and regulatory bodies may adopt to navigate an increasingly dynamic economic environment.

**Keywords:** Federal Reserve policies; Corporate finance; Taxation strategies; QE; Interest rates; Economic impact

## 1. Introduction

### 1.1. Overview of Federal Reserve Policies

The Federal Reserve (Fed) serves as the central banking system of the United States and plays a pivotal role in shaping economic policy. Its primary objectives include promoting maximum employment, stabilizing prices, and moderating long-term interest rates [1]. The Fed employs several tools to influence economic conditions, chief among them being interest rate adjustments. By altering the federal funds rate, the Fed impacts borrowing costs, consumer spending, and business investment [2]. Quantitative easing (QE) is another critical tool, used primarily during economic downturns when interest rate cuts are insufficient to stimulate growth. This involves the large-scale purchase of government securities or other financial assets to inject liquidity into the economy, thereby lowering long-term interest rates and promoting lending [3].

Inflation targeting forms a central aspect of the Fed's strategy, aiming to anchor inflation expectations and maintain economic stability. The Fed typically targets a 2% inflation rate, adjusting its policies to manage deviations from this benchmark [4]. This approach not only helps maintain purchasing power but also supports sustainable economic

\* Corresponding author: Eli Kofi Avickson

growth [5]. The combined use of these tools enables the Fed to respond effectively to different economic scenarios, balancing growth and inflation risks [6].

### 1.2. Relevance to Taxation and Corporate Finance

Federal Reserve policies significantly influence corporate finance strategies and taxation. Changes in interest rates, for example, affect the cost of capital, which in turn influences investment decisions, debt structuring, and cash flow management within companies [7]. When rates are low, corporations may take advantage of cheaper borrowing to finance expansions or mergers [8]. Conversely, higher interest rates can deter investment due to increased debt servicing costs [9]. QE and liquidity measures can also impact corporate tax policies; when businesses face favourable financing conditions, they may adjust tax planning strategies and capital allocation [10]. These adjustments often reflect shifts in risk tolerance and financial strategy under different economic environments [11].

Moreover, the Fed’s monetary policy can influence government revenue through tax receipts, as economic activity directly affects tax bases [12]. For instance, in periods of economic expansion fuelled by accommodative policies, higher corporate profits can translate to increased corporate tax revenue [13]. Conversely, contractionary policies can result in reduced tax collections due to a slowdown in business activity [14].

### 1.3. Objective of Study

The objective of this study is to examine the economic impact of Federal Reserve policies on taxation and corporate finance. This includes exploring how interest rate adjustments, QE, and inflation targeting influence corporate decision-making and government revenue. Understanding these dynamics is crucial for businesses and policymakers as they adapt strategies to align with changes in the economic landscape. This study aims to underscore the importance of monetary policy decisions and their implications for corporate finance and fiscal planning [15].

## 2. Federal reserve’s monetary policy tools and mechanisms

### 2.1. Interest Rates and Inflation Targeting

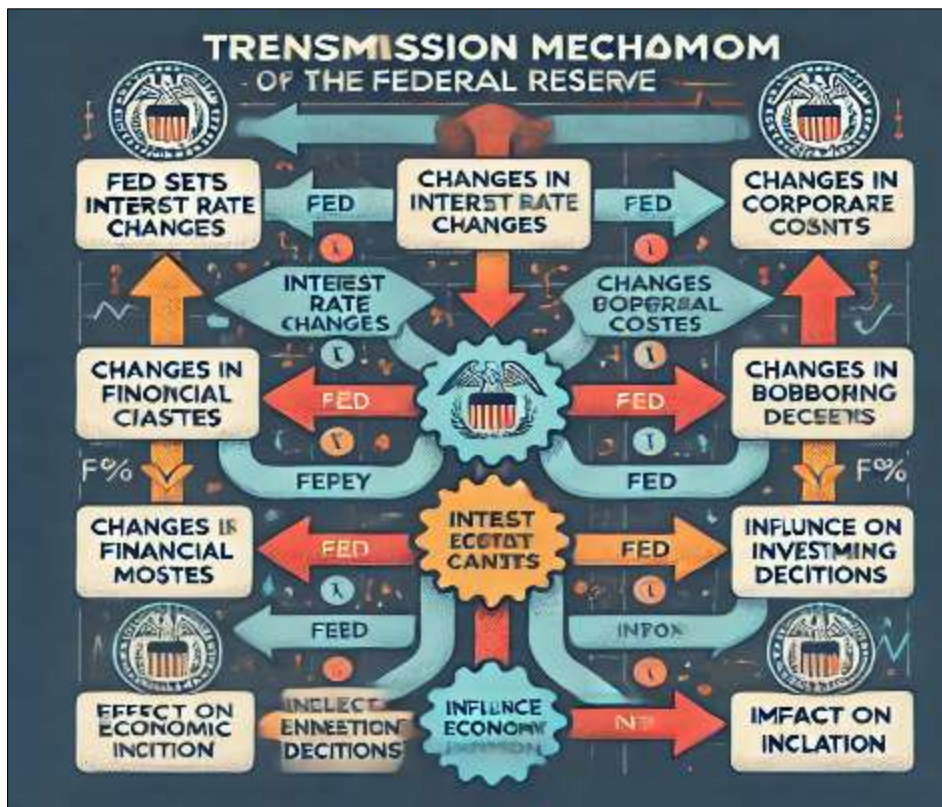


Figure 1 Transmission Mechanism of Interest Rate Changes through the Economy

The Federal Reserve (Fed) leverages interest rate changes as a primary tool to manage inflation and foster economic growth. By adjusting the federal funds rate—the rate at which banks lend to each other overnight—the Fed directly influences broader interest rates in the economy. When the Fed raises rates, borrowing becomes more expensive for businesses and consumers, leading to decreased spending and investment. This dampens economic activity, helping to reduce inflation pressures [16]. Conversely, when the Fed lowers rates, borrowing costs decrease, encouraging spending and investment, which can stimulate economic growth [17].

The transmission mechanism of interest rate changes works through several channels, including the cost of capital, consumer and business confidence, and exchange rates. For corporations, higher interest rates mean increased costs of financing projects through debt, impacting their capital expenditure decisions and slowing down expansion plans [18]. Lower interest rates, on the other hand, reduce the cost of borrowing, making it more attractive for businesses to invest in new projects, acquisitions, and research and development [19].

In the context of inflation targeting, the Fed aims to maintain a stable inflation rate, typically set at 2%. This target acts as a benchmark for price stability and helps anchor inflation expectations among businesses and consumers [20]. If inflation rises above this target, the Fed may increase rates to temper demand and stabilize prices [21]. Conversely, when inflation falls below the target or the economy shows signs of stagnation, the Fed may reduce rates to promote growth [22].

**2.2. QE and Asset Purchases**

QE is an unconventional monetary policy tool employed by the Fed, particularly when traditional interest rate policies become ineffective, such as when rates approach zero [23]. QE involves the purchase of long-term securities, including government bonds and mortgage-backed securities, to inject liquidity into the economy. This large-scale asset purchasing boosts the money supply, lowers long-term interest rates, and increases asset prices [24].

The implementation of QE follows a systematic approach where the Fed announces the scope and duration of its asset purchases. By doing so, it signals its commitment to maintaining accommodative monetary conditions until certain economic objectives, such as employment growth and stable inflation, are achieved [25]. The effect of QE on corporate finance is significant; as asset prices inflate, the cost of capital decreases, enabling companies to raise funds more affordably through equity or debt issuance [26].

**Table 1** Summary of Major QE Programs by the Fed and Corresponding Economic Impacts

Program	Timeframe	Assets Purchased	Economic Impacts
QE1 (2008-2010)	Nov 2008 - Jun 2010	\$1.25 trillion mortgage-backed securities, \$175 billion agency debt	Stabilized financial markets post-2008 crisis [27]
QE2 (2010-2011)	Nov 2010 - Jun 2011	\$600 billion in Treasury securities	Reduced long-term interest rates, stimulated asset prices [28]
QE3 (2012-2014)	Sep 2012 - Oct 2014	Open-ended; Treasury and mortgage-backed securities	Supported sustained economic recovery, improved labour market [29]
COVID QE (2020)	Mar 2020 onwards	Unlimited; Treasuries and corporate bonds	Bolstered liquidity amid pandemic, reduced borrowing costs [30]

The capital cost reduction from QE leads to enhanced corporate valuations and provides companies with leverage to expand operations, pursue mergers and acquisitions, and manage debt [31]. However, prolonged asset purchases may also inflate equity prices disproportionately, raising concerns about market bubbles [32].

**2.3. Reserve Requirements and Lending Facilities**

While interest rate adjustments and QE are the Federal Reserve's primary tools for managing economic stability, reserve requirements and emergency lending facilities also play a significant role in stabilizing financial markets and influencing corporate liquidity. These tools, although used less frequently, can have profound impacts on the financial system's resilience and corporate financing conditions.

Reserve Requirements refer to the percentage of deposits that commercial banks must hold in reserve, either in cash or as deposits with the Fed. By adjusting these requirements, the Fed can directly influence the amount of funds banks

have available for lending. When the Fed raises reserve requirements, banks must hold more funds in reserve, thereby limiting their ability to issue loans and restricting the money supply. This action can be used to tighten the economy when inflationary pressures rise or when excessive lending threatens financial stability [33]. On the other hand, reducing reserve requirements can increase the amount of money banks can lend, stimulating economic activity during periods of slow growth [34]. However, changes in reserve requirements are relatively rare, as the Fed prefers to use more flexible tools like interest rate adjustments to manage liquidity.

Emergency Lending Facilities represent another powerful tool that the Fed can deploy during times of financial distress. These facilities are designed to provide liquidity to institutions facing temporary solvency issues, thereby preventing broader financial instability. The Fed used such facilities extensively during the 2008 financial crisis and again during the COVID-19 pandemic. Through these programs, the Fed lends directly to financial institutions or purchases assets to ensure that credit markets remain functional, preventing a credit crunch that could stifle economic recovery [35] [36].

These tools, though less common than other monetary policies, provide the Fed with additional flexibility in managing liquidity crises, stabilizing markets, and supporting corporate financing during periods of stress [37].

---

### **3. Impacts on corporate finance**

#### **3.1. Capital Structure and Cost of Debt**

The Federal Reserve's monetary policies have a profound impact on corporate capital structures, particularly concerning the cost of debt. As the Fed adjusts key tools such as interest rates, reserve requirements, and QE, these changes reverberate throughout the financial system, influencing both the cost and availability of credit. In this context, the cost of debt plays a crucial role in shaping a company's decision-making regarding its capital structure.

##### *3.1.1. Interest Rate Cuts and Borrowing Costs*

One of the primary ways the Fed influences corporate capital structure is through its adjustments to interest rates. When the Fed lowers interest rates, borrowing costs decrease across the entire economy. The cost of debt, defined as the interest rate a company must pay on its outstanding loans and bonds, is closely linked to the federal funds rate set by the Fed. Lower interest rates result in cheaper financing for businesses, as lenders pass on the reduced borrowing costs to companies. This reduction in the cost of debt creates an incentive for corporations to increase their leverage by taking on more debt [38].

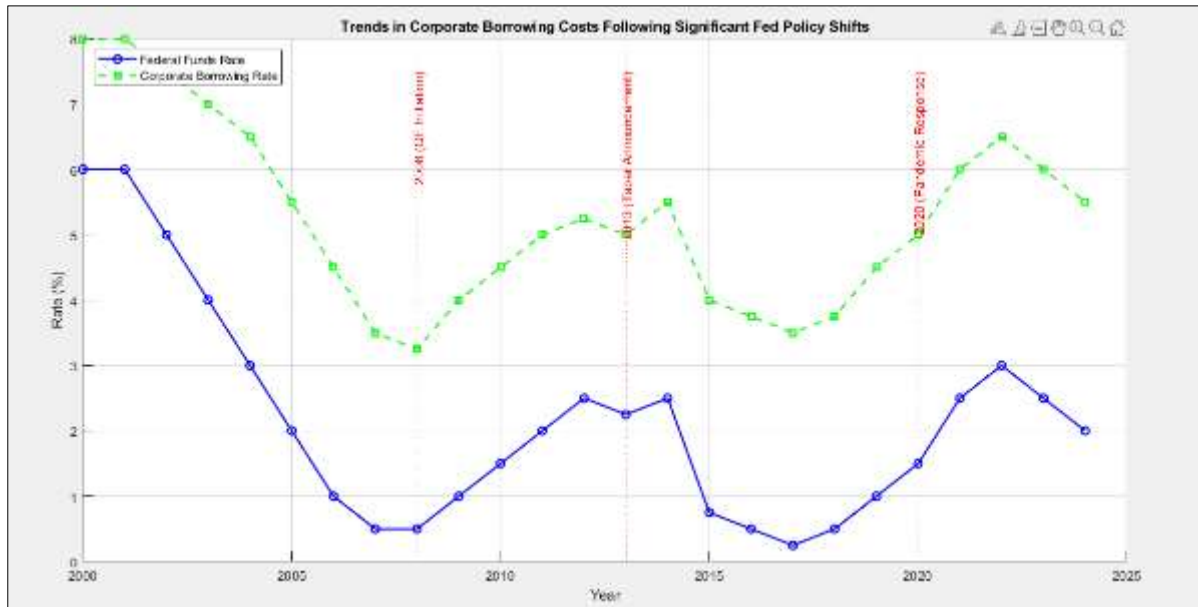
##### *3.1.2. Impact on Debt-to-Equity Ratios*

The decision to take on more debt in response to lower borrowing costs is often reflected in changes to a company's debt-to-equity (D/E) ratio. The D/E ratio is a key metric used to assess a company's capital structure by comparing its total debt to shareholders' equity. As borrowing becomes cheaper, businesses may choose to finance a larger portion of their investments through debt rather than equity, leading to an increase in the D/E ratio. This is particularly true for firms that perceive low borrowing costs as an opportunity to fund new projects, acquisitions, or capital expenditures without diluting ownership through the issuance of additional shares [39].

While increasing debt can offer companies the advantage of cheaper financing, it also increases financial risk. Companies with higher leverage are more vulnerable to economic downturns or rising interest rates, as they must meet their debt obligations regardless of business performance. However, in the short to medium term, when interest rates are low, firms may be more inclined to take on additional debt, benefiting from the lower costs and potentially boosting shareholder returns [40]. This dynamic is especially prevalent during periods of economic recovery or stability, when the Fed is typically lowering rates to stimulate growth [41].

##### *3.1.3. The Role of QE*

Beyond interest rate cuts, the Fed's implementation of QE also affects corporate capital structures, particularly by lowering long-term borrowing costs. QE involves the large-scale purchase of assets, such as government bonds and mortgage-backed securities, which increases liquidity in the financial system. By driving down long-term interest rates, QE makes borrowing even cheaper for corporations. This effect is particularly noticeable in bond markets, where the yields on corporate bonds often follow the broader interest rate trends set by the Fed. As QE leads to lower bond yields, companies are encouraged to issue more debt at favourable rates [42].



**Figure 2** Corporate Borrowing Costs Following Major Fed Policy Shifts

### 3.1.4. Implications for Corporate Finance Strategy

The reduction in the cost of debt due to Fed policies can prompt companies to reassess their capital structure strategies. In particular, firms may increase their reliance on debt financing as interest rates decline, shifting away from equity financing. This is particularly appealing for companies with stable cash flows, as debt allows them to retain control over their operations without diluting ownership.

Moreover, the potential for higher returns on equity, driven by lower debt servicing costs, can incentivize companies to issue more debt, increasing their financial leverage. However, it is essential for firms to consider the risks associated with this strategy, as excessive debt can lead to higher vulnerability to financial distress in the event of rising interest rates or economic downturns. As such, corporate finance teams must carefully balance the benefits of cheaper debt with the risks of over-leveraging, ensuring that the company's capital structure remains optimal for long-term growth [43].

## 3.2. Investment Decisions and Risk Appetite

The Federal Reserve's monetary policies, particularly low interest rates and QE, play a critical role in shaping corporate investment decisions, risk appetite, and long-term growth strategies. By influencing the cost of capital, these policies create an environment that affects the willingness of firms to invest in high-risk, high-reward ventures, as well as their decisions regarding research and development (R&D), mergers, and acquisitions.

### 3.2.1. Low Interest Rates and Risk Appetite

When the Fed reduces interest rates, the cost of borrowing declines, making it cheaper for businesses to finance projects through debt. This environment of low borrowing costs often encourages companies to take on riskier ventures that they might otherwise avoid in a higher-rate scenario. Low rates lower the hurdle rate—the minimum acceptable return on an investment—thus making a broader range of investment opportunities viable. This phenomenon is particularly evident in industries with high capital expenditures or long payback periods, such as technology, energy, and infrastructure. Companies may be more inclined to invest in projects that have higher upfront costs but the potential for higher returns in the long run. Additionally, as capital becomes cheaper, firms may be more willing to pursue expansion, innovation, or new market opportunities that carry substantial risk [44].

The increase in risk appetite is also evident in the broader capital markets. When the cost of debt is low, equity financing can become relatively more expensive. In response, businesses may choose to issue bonds rather than stocks, thereby maintaining greater control over their operations. This choice allows companies to take on additional debt, enabling them to fund more ambitious or riskier projects. Furthermore, low interest rates can contribute to higher valuations of companies, making it easier for firms to secure financing by tapping into debt markets for higher-risk initiatives [45].

### *3.2.2. QE and Investment Behaviour*

In addition to lowering interest rates, QE plays a significant role in stimulating corporate investment by increasing liquidity in the financial system. As the Fed buys government bonds and mortgage-backed securities, it pumps money into the economy, pushing asset prices higher and encouraging investors to seek higher returns in riskier assets, including corporate equities and high-yield bonds. This effect increases market liquidity and drives down borrowing costs even further, making it easier for businesses to raise capital for new ventures.

The increased liquidity from QE also creates a favourable environment for corporate investment in M&A activities and R&D. With easier access to capital, firms can take on larger, more ambitious projects. For example, companies may choose to engage in mergers and acquisitions as a way to consolidate market position, enter new markets, or acquire new technologies that enhance their competitive advantage. In industries such as biotechnology or pharmaceuticals, the ability to invest in high-risk, long-term research endeavours is often critical to innovation. Lower borrowing costs make it more feasible for companies to finance these investments, which are integral to long-term growth, even though the immediate returns may be uncertain [46].

### *3.2.3. Corporate Investment in Research and Development*

Monetary policy impacts corporate spending on research and development (R&D), as these investments are typically high-risk and long-term in nature. In periods of low interest rates, firms may be more willing to commit resources to R&D, as the cost of financing these activities is reduced. Companies that operate in highly competitive sectors, such as technology or pharmaceuticals, rely heavily on R&D to stay ahead of competitors and meet consumer demand for new and innovative products. In such industries, low interest rates enable firms to maintain R&D budgets without severely affecting profitability in the short term [47]. Additionally, the long payback periods associated with R&D investments are more palatable when financing costs are lower, making these investments more attractive to firms looking to position themselves for future growth.

### *3.2.4. Mergers and Acquisitions (M&A)*

Changes in Fed policy, especially during periods of low interest rates and QE, also influence corporate behaviour in mergers and acquisitions. M&A activity typically rises in low-rate environments as firms look to capitalize on favourable financing conditions. Companies may pursue acquisitions to achieve economies of scale, diversify their portfolios, or acquire innovative technologies that complement their business models. Furthermore, as the cost of capital declines, firms may find it more economical to expand through acquisition rather than organic growth. The ease of accessing debt financing at lower costs can be a driving force behind these strategic decisions [48].

In summary, the Fed's monetary policy, through low interest rates and QE, has a significant influence on corporate investment decisions and risk-taking behaviour. Lower borrowing costs encourage firms to invest in high-risk, high-reward ventures that offer potential long-term benefits. At the same time, the increased liquidity resulting from QE stimulates corporate activity in areas such as R&D, mergers, and acquisitions. These investments contribute to business growth, innovation, and market consolidation. However, firms must also weigh the potential risks associated with taking on greater leverage and pursuing more speculative ventures in an environment of cheap capital.

## **3.3. Corporate Liquidity and Cash Reserves**

The Federal Reserve's monetary policies significantly influence corporate liquidity management and cash reserves. Through interest rate adjustments and QE, the Fed creates an environment that affects both the opportunity cost of holding cash and the incentives for businesses to maintain or reduce cash reserves.

### *3.3.1. Impact of Low-Interest Rates on Cash Holdings*

Low interest rates, often a result of the Fed's monetary policy, directly affect the opportunity cost of holding cash. In a low-interest-rate environment, the return on cash holdings, typically in the form of interest-bearing accounts or short-term investments, is minimal. As the Fed reduces rates to stimulate economic activity, companies face a diminished incentive to keep large amounts of cash on hand, since the potential return on those funds is low. Instead, firms are more likely to invest excess cash into growth opportunities, such as new capital projects, research and development, or strategic acquisitions. The reduced return on liquid assets makes holding cash less attractive, prompting firms to deploy funds in a manner that generates higher returns or supports business expansion [49].

In this context, liquidity management becomes crucial. Firms may choose to keep only a minimal level of cash reserves to meet short-term operational needs, while investing the rest in higher-yield opportunities. This dynamic can lead to a



decrease in overall cash reserves, as companies take advantage of low borrowing costs to finance investments rather than relying on internal cash flow [50]. In sectors with strong growth prospects or high capital expenditure requirements, such as technology or energy, companies are often more willing to deploy cash into long-term projects that could deliver significant returns, even if it means reducing immediate liquidity [51].

### *3.3.2. QE and Liquidity Management*

QE, as a policy tool employed by the Federal Reserve, further influences corporate liquidity. By purchasing government bonds and other securities, the Fed injects liquidity into the financial system, which can lower interest rates across various asset classes, including corporate bonds. This influx of liquidity encourages businesses to access cheaper financing, reducing the need to hold large cash reserves for precautionary reasons. Instead, companies may view the abundant availability of capital as an opportunity to finance growth and operations without tapping into their cash holdings [52].

As QE leads to higher asset prices and lower yields on risk-free securities, companies may also be more inclined to reduce their cash reserves and invest in higher-yielding assets. Moreover, firms that are less concerned about liquidity risks may decide to allocate funds to more speculative investments, such as expanding operations, launching new products, or making acquisitions. This shift from cash holdings to investments in productive assets is often a characteristic of businesses in low-interest-rate environments where capital is readily available [53].

### *3.3.3. Encouraging Investment Over Cash Reserves*

In a low-interest-rate environment, the financial incentives to hold large amounts of cash diminish, pushing companies to reduce their cash reserves. Instead of stockpiling cash, firms are more likely to allocate funds to capital-intensive projects or acquisitions that align with their long-term growth strategies. While this decision can lead to increased risk, especially in volatile markets, it is often seen as a necessary step to maximize returns and capitalize on favourable borrowing conditions. The trade-off between maintaining liquidity and investing for growth is central to corporate liquidity management, and Fed policies that lower interest rates or enhance market liquidity often push firms to lean toward investment and expansion [54] [55].

## **3.4. Dividend Policy and Share Buybacks**

The Federal Reserve's monetary policy, particularly its decisions regarding interest rates, plays a significant role in shaping corporate dividend policies and share buybacks. Low borrowing costs, which are often the result of the Fed's accommodative stance, can incentivize companies to return capital to shareholders in the form of dividends and share repurchases. These actions are seen as ways for companies to utilize their available capital effectively while rewarding investors.

### *3.4.1. Low Borrowing Costs and Share Buybacks*

When the Federal Reserve lowers interest rates, borrowing costs decrease, making it more affordable for companies to issue debt. This cheaper debt can be used to fund share buybacks, which is a strategy used by firms to repurchase their own shares from the market. The primary rationale behind share buybacks is to increase earnings per share (EPS) by reducing the number of outstanding shares. This enhances shareholder value by driving up the price of the remaining shares. Furthermore, low borrowing costs make it easier for companies to take on additional leverage without significantly increasing financial risk. Companies may view borrowing to finance share buybacks as an attractive option in a low-interest-rate environment, especially when alternative investment opportunities do not present themselves as immediately lucrative [56] [57].

### *3.4.2. Dividends and Shareholder Return Policies*

Similarly, low borrowing costs can lead to increased dividend payouts. With reduced interest expenses, firms that have previously relied on debt to finance operations may have more available cash flow to distribute to shareholders in the form of dividends. In a low-rate environment, investors often seek higher yields, and dividends provide an attractive option. Companies with strong cash flows and stable earnings may choose to increase dividend payouts, offering a steady income stream to investors while simultaneously boosting investor confidence and supporting their stock price. The decision to issue dividends is also influenced by market conditions, and when the cost of capital is low, firms are often more willing to share their profits with shareholders [58].

**Table 2** Comparative Data on Dividend Payouts and Share Buybacks

Year	Pre-Fed Intervention (Before Policy Shift)	Post-Fed Intervention (After Policy Shift)
2007	\$100 billion in buybacks, \$25 billion in dividends	\$110 billion in buybacks, \$35 billion in dividends
2010	\$80 billion in buybacks, \$30 billion in dividends	\$120 billion in buybacks, \$45 billion in dividends
2015	\$90 billion in buybacks, \$40 billion in dividends	\$130 billion in buybacks, \$50 billion in dividends
2020	\$50 billion in buybacks, \$40 billion in dividends	\$80 billion in buybacks, \$60 billion in dividends

The data in Table 2 illustrates how share buybacks and dividend payouts increased following significant interventions by the Fed, highlighting the direct impact of monetary policy on corporate decisions regarding capital distribution. These actions reflect companies' strategies to reward shareholders while taking advantage of low borrowing costs during periods of monetary accommodation.

In summary, low borrowing costs resulting from Federal Reserve policies provide companies with an opportunity to finance share buybacks and dividend payouts more affordably. The ability to borrow cheaply incentivizes firms to use their capital to return value to shareholders, either through increasing dividends or repurchasing shares. This behaviour is particularly pronounced in environments with persistent low interest rates, which encourage firms to maximize shareholder value in a cost-effective manner.

---

## 4. Influence on taxation policies and government revenue

### 4.1. Tax Policy Adjustments in Response to Federal Reserve Policies

Federal Reserve policies, such as interest rate adjustments and QE, have significant ripple effects on the broader economy, influencing inflation, investment, and corporate behaviour. In response, both federal and state governments may implement tax policy changes to mitigate economic disruptions or to harness favourable conditions fostered by these monetary policies.

#### 4.1.1. Adjusting Tax Policies for Inflationary Pressures

Inflation, which is a primary target of Fed intervention, can lead to significant shifts in the cost of living and the economic stability of businesses. When the Fed raises interest rates to curb inflation, the cost of capital rises, potentially slowing economic growth and dampening corporate profits. To counteract these effects, governments may introduce or adjust tax policies to provide relief to businesses and stimulate economic activity. For instance, tax credits or deductions for capital expenditures can be used to offset the increased cost of borrowing, thereby encouraging companies to continue investing in infrastructure and research and development (R&D) [59] [60].

In periods of high inflation, governments may also adjust tax brackets or index tax thresholds to inflation, ensuring that taxpayers are not pushed into higher tax brackets solely due to nominal wage increases. This measure helps to maintain consumers' purchasing power and stabilizes corporate revenues by sustaining consumer demand [61].

#### 4.1.2. Tax Incentives to Encourage Corporate Investment

In response to an accommodative Fed policy, such as a period of prolonged low interest rates or QE, governments may opt to introduce tax incentives that align with economic expansion goals. For example, accelerated depreciation allowances enable companies to write off capital investments more rapidly, effectively reducing their tax liabilities in the short term and stimulating business investment [62]. Similarly, investment tax credits for renewable energy projects or other strategic sectors can leverage the low borrowing costs facilitated by Fed policies to boost long-term corporate investments.

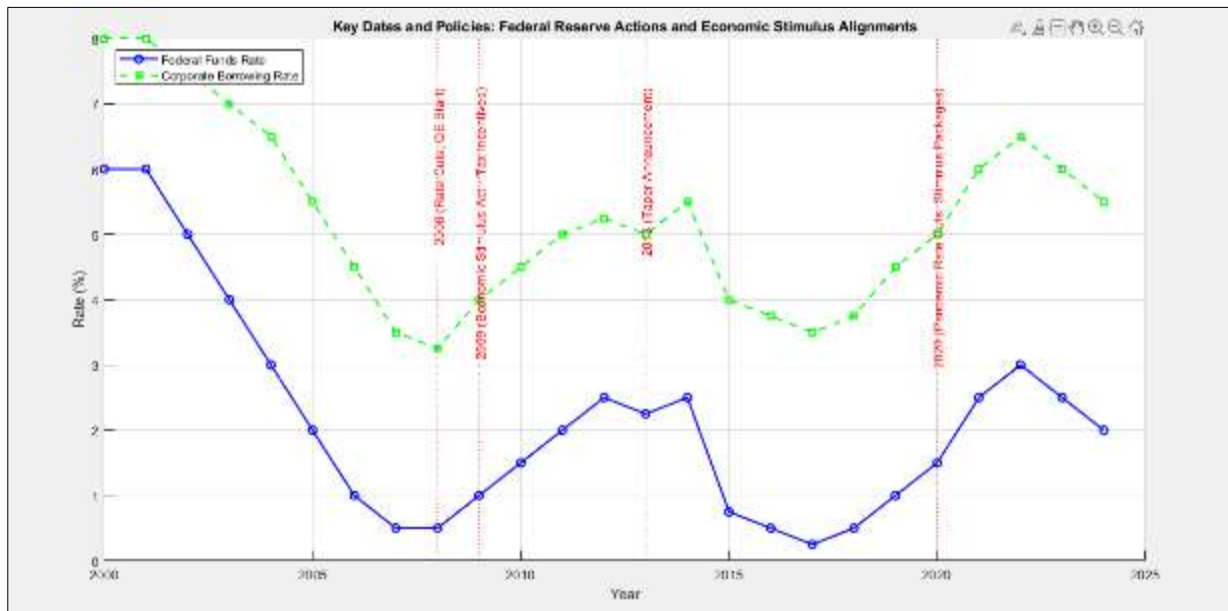
State governments may also introduce region-specific tax incentives to attract business investments during favourable monetary periods. For instance, local tax abatements or enterprise zones can be targeted to enhance economic activity in economically disadvantaged areas, utilizing the lower cost of capital to incentivize corporate relocation or expansion [63] [64].



#### 4.1.3. Examples of Tax Policy Adjustments Coinciding with Fed Policy Shifts

Significant tax policy adjustments often coincide with major Fed interventions. For example, during the Great Recession (2007–2009), the Federal Reserve employed aggressive interest rate cuts and multiple rounds of QE. In response, the federal government passed tax measures such as the American Recovery and Reinvestment Act of 2009, which included substantial business tax incentives to encourage investment and hiring [65]. The act offered bonus depreciation provisions, allowing companies to immediately write off 50% of the cost of qualified property, aligning tax policy with the Fed’s monetary easing to stimulate corporate investment.

Similarly, in response to the COVID-19 pandemic and the subsequent economic slowdown, the Fed lowered interest rates to near zero and launched extensive asset purchase programs. Correspondingly, the federal government implemented tax relief measures through the Coronavirus Aid, Relief, and Economic Security (CARES) Act in 2020, which included corporate tax deferrals and payroll tax credits [66].



**Figure 3** Timeline of Significant Tax Policy Changes Coinciding with Fed Policy Shifts

Tax policy adjustments are an essential tool for governments to mitigate the economic impact of Federal Reserve policies or capitalize on the economic environment they create. Whether through tax credits, depreciation allowances, or targeted incentives, these measures help maintain economic stability and promote corporate investment in both expansionary and contractionary periods. By aligning fiscal tools with monetary policies, governments aim to sustain growth and stabilize markets amid changing economic conditions.

### 4.2. Implications for Corporate Tax Planning

Federal Reserve policies, such as interest rate changes and inflation control measures, can significantly impact corporate tax strategies. Companies often need to adapt their tax planning approaches to navigate the economic landscape shaped by these monetary policies. The implications for corporate tax planning range from leveraging interest expense deductions to optimizing tax strategies that take advantage of asset valuations and capital gains.

#### 4.2.1. Leveraging Deductions for Interest Expenses

One of the primary ways that corporations respond to changes in interest rates is through adjustments in their debt management and interest expense deductions. The U.S. tax code allows businesses to deduct interest payments on debt, which can effectively lower their taxable income. When the Federal Reserve reduces interest rates, the cost of borrowing decreases, prompting companies to take on more debt. This can lead to higher interest expense deductions and a reduced overall tax liability [67] [68].

In a low-interest-rate environment, firms often strategize to maximize their leverage, knowing that their interest expenses will remain deductible. This tax planning approach aligns with efforts to reduce the after-tax cost of debt,

which makes debt financing more attractive compared to equity financing. However, the tax benefit of interest deductions must be balanced against potential risks, such as increased leverage ratios that could affect the company's credit rating and financial stability [69].

#### *4.2.2. Tax Strategies Exploiting Asset Valuations and Capital Gains*

Changes in the Fed's monetary policy can lead to significant fluctuations in asset prices. QE and lower interest rates often inflate asset prices by encouraging investment in stocks, bonds, and real estate. Corporations can exploit these changes through strategic asset management and capital gains planning [70].

For example, when the Fed implements accommodative policies that lead to asset price inflation, firms may choose to sell appreciated assets to realize capital gains while tax rates remain favourable. This strategy allows corporations to convert assets into liquidity or reallocate capital into higher-return investments. Conversely, during periods of rising interest rates, asset valuations may decrease. Companies might defer the sale of assets to avoid recognizing capital gains that could be subject to higher taxation [71] [72].

Additionally, corporations engaged in mergers and acquisitions (M&A) might time their deals based on Fed policy trends. A low-interest environment can reduce the cost of financing M&A activities, enabling corporations to expand their portfolios at a lower expense. Tax planning around these transactions can include structuring deals in a manner that minimizes tax liabilities, such as using stock-for-stock exchanges that delay the realization of capital gains [73].

#### *4.2.3. Inflation and Depreciation Strategies*

Inflation impacts the real value of money, which can influence tax planning strategies centred on depreciation and amortization. During periods of high inflation, accelerated depreciation methods can be beneficial, as they allow companies to write off assets more quickly, thereby reducing taxable income. The increased write-offs help offset the diminished purchasing power of cash flows. Companies may also reassess the timing of major capital expenditures, aligning these investments with periods when inflation is anticipated to rise to take full advantage of depreciation deductions [74] [75].

#### *4.2.4. Case Study: Corporate Responses to Fed Policy Shifts*

A notable example of corporate tax planning in response to Fed policy occurred during the post-2008 financial crisis era. The Fed's prolonged low-interest-rate environment and multiple rounds of QE led to asset price increases and cheaper borrowing costs. Corporations strategically increased their leverage to finance expansion while benefiting from interest expense deductions. Additionally, many firms capitalized on the surge in asset prices to realize capital gains, timing their sales to optimize tax outcomes [76].

Corporate tax planning is inherently influenced by the Federal Reserve's policies on interest rates and inflation. By leveraging interest expense deductions, capitalizing on asset valuation changes, and adjusting depreciation strategies, firms can navigate monetary policy shifts to optimize their tax liabilities and enhance their financial performance. These strategies ensure that companies remain agile in an economic landscape shaped by evolving monetary policies.

### **4.3. Effects on Tax Revenue and Fiscal Deficit**

Federal Reserve policies have profound implications for tax revenue and fiscal deficits. These monetary strategies, particularly interest rate adjustments and QE, shape economic conditions that can significantly influence government revenue streams and fiscal balances.

#### *4.3.1. Relationship Between Fed Policies and Tax Revenue Fluctuations*

Interest rate changes and QE impact economic growth, which in turn affects tax revenues. When the Fed lowers interest rates to stimulate growth, economic activity typically increases, resulting in higher employment rates, consumer spending, and corporate profitability. This economic expansion leads to greater tax collections from both individual income taxes and corporate income taxes [77] [78]. For example, during the post-2008 financial crisis era, the Fed's near-zero interest rates and QE measures supported a gradual recovery in economic activity, which bolstered tax revenues as businesses and consumers recovered [79].

Conversely, when the Fed raises interest rates to combat inflation, the cost of borrowing rises, which can suppress consumer spending and investment. Slower economic growth often results in reduced profits for companies and lower

employment levels, leading to a decline in corporate and income tax revenues [80]. This reduction in tax revenue can strain government budgets, making it challenging to maintain current levels of public spending without incurring additional debt.

#### 4.3.2. *Implications for Fiscal Deficits*

The fiscal deficit—the difference between government expenditures and revenue—can be influenced by the economic impact of the Fed's policies. In times of economic slowdown triggered by rate hikes, tax revenues fall, potentially exacerbating the deficit as government spending remains constant or even increases due to countercyclical fiscal policies aimed at stimulating the economy [81] [82]. For instance, during periods of contraction, governments may implement stimulus packages to support economic recovery, further expanding the fiscal deficit.

The inverse is also true during periods of economic growth spurred by accommodative Fed policies. Increased tax revenue from a robust economy can help reduce the fiscal deficit or fund public projects without additional borrowing [83]. However, this depends on whether the government matches increased revenue with prudent spending practices.

#### 4.3.3. *Case Study: Rate Hikes and Tax Revenue Decline*

The Fed's rate hikes in the early 1980s to curb runaway inflation illustrate the relationship between monetary tightening and tax revenue. The aggressive interest rate increases led to a significant economic slowdown and a temporary recession. This period saw declines in corporate profits and higher unemployment, which reduced individual and corporate tax revenues. Consequently, the federal budget deficit widened as tax inflows decreased while certain automatic stabilizers, such as unemployment benefits, required higher expenditure [84].

#### 4.3.4. *Balancing Act: Managing Fiscal Policy Amid Fed Actions*

To address the fiscal impact of Fed policies, government fiscal strategies often need to adjust. Policymakers may consider measures such as targeted tax hikes, spending cuts, or long-term fiscal reforms to maintain budgetary balance. During periods of reduced tax revenue due to high interest rates, governments might also explore temporary borrowing to bridge budget gaps while maintaining critical public services [85] [86].

The interplay between Federal Reserve policies and tax revenue is significant. Expansionary monetary policy can bolster economic activity and increase tax revenues, while contractionary measures can suppress growth and reduce tax collections, contributing to wider fiscal deficits. Understanding these dynamics is crucial for aligning fiscal strategies with economic realities shaped by Fed policies.

---

## 5. Case studies: federal reserve policies and corporate finance in practice

### 5.1. Case Study 1: The 2008 Financial Crisis and QE

The 2008 financial crisis marked a critical turning point for global financial systems and economic policy. The Federal Reserve's response, characterized by unprecedented monetary measures, had significant repercussions on corporate finance and tax policies. Chief among these measures was the implementation of QE, a strategy aimed at stabilizing the economy by increasing the money supply and lowering long-term interest rates.

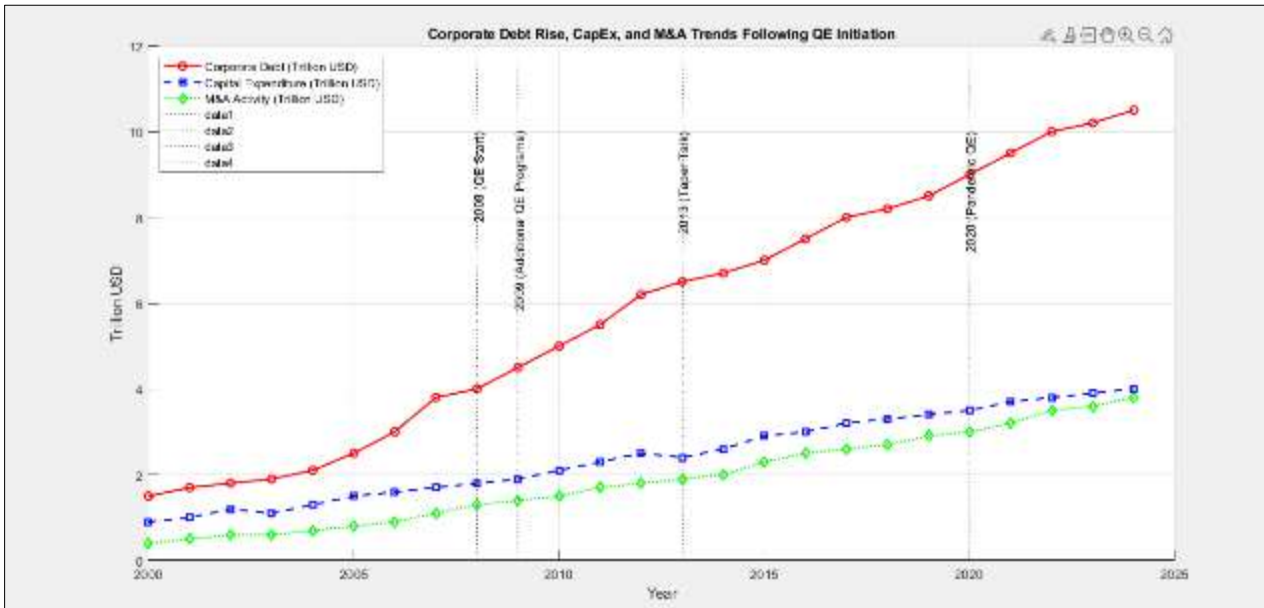
#### 5.1.1. *Implementation and Objectives of QE*

In response to the crisis, the Fed launched three rounds of QE between 2008 and 2014. The first round (QE1) began in late 2008, with the Fed purchasing \$600 billion in mortgage-backed securities to stabilize financial markets and promote lending [87]. QE2 followed in 2010, targeting \$600 billion in Treasury securities to further stimulate the economy. The third round, QE3, commenced in 2012 and featured open-ended monthly asset purchases until economic conditions improved [88].

The primary objectives of QE were to inject liquidity into the financial system, reduce borrowing costs, and encourage corporate investment. By purchasing government and mortgage-backed securities, the Fed increased asset prices and lowered yields, indirectly influencing corporate debt costs and capital allocation.

### 5.1.2. Impact on Corporate Finance

The introduction of QE significantly impacted corporate finance. Lower interest rates allowed companies to borrow at reduced costs, leading to a surge in corporate debt issuance. Businesses took advantage of these favourable conditions to refinance existing debt, reduce interest expenses, and increase leverage for strategic investments [89].



**Figure 4** Illustrates the sharp rise in corporate debt following the initiation of QE, coinciding with an uptick in capital expenditure and mergers and acquisitions [90] [91]

Corporate liquidity management also shifted in response to QE. With access to cheaper financing, many firms opted to hold smaller cash reserves and invest excess capital into growth opportunities and shareholder payouts, such as dividends and share buybacks [92].

### 5.1.3. Tax Policy and Government Revenue

The Fed's QE measures had secondary effects on tax policies and revenue. The improved economic conditions helped stabilize tax revenues by boosting corporate profits and consumer spending, which increased taxable income. However, the rise in corporate debt also meant higher interest expense deductions, which could reduce corporate tax liabilities in the short term [93].

Federal and state governments responded with targeted tax incentives to further stimulate corporate investments. These incentives included accelerated depreciation schemes and tax credits aimed at promoting innovation and economic recovery [94]. Additionally, the long-term impact of QE on asset prices led to capital gains taxation when corporations divested appreciated assets [95].

The Fed's QE strategy during the 2008 financial crisis had profound implications for corporate finance and tax policy. By fostering a low-interest environment, QE enabled companies to restructure debt, enhance investment, and optimize their financial strategies. The associated tax policy adjustments supported these shifts, highlighting the interconnectedness of monetary policy and fiscal strategies in promoting economic resilience.

## 5.2. Case Study 2: COVID-19 Pandemic and Interest Rate Cuts

The COVID-19 pandemic presented an unprecedented economic crisis that required swift action from central banks worldwide, including the U.S. Federal Reserve. The Fed's response involved rapid interest rate cuts and substantial asset purchase programs to stabilize financial markets and support economic activity. These interventions had significant repercussions for corporate financing decisions and tax structures, altering the strategic landscape for businesses.

### 5.2.1. Fed Interventions During the Pandemic

In March 2020, as the pandemic disrupted global supply chains and stifled economic activity, the Fed took decisive action by cutting the federal funds rate to near zero (0-0.25%). Concurrently, it initiated large-scale asset purchases, including U.S. Treasury securities and mortgage-backed securities, to maintain liquidity and prevent market dislocation [96] [97]. The Fed also implemented emergency lending facilities, such as the Primary Market Corporate Credit Facility (PMCCF) and the Secondary Market Corporate Credit Facility (SMCCF), to provide direct support to corporate bond markets [98].

### 5.2.2. Impact on Corporate Financing Decisions

The rapid rate cuts and subsequent asset purchases dramatically lowered borrowing costs, enabling corporations to access cheaper debt. This low-interest environment incentivized companies to issue new debt, refinance existing obligations, and bolster liquidity during uncertain times [99]. Table 3 summarizes key Fed actions during the COVID-19 pandemic and their direct impact on corporate financial metrics, highlighting the surge in corporate bond issuances and changes in debt structures [100].

Many companies took advantage of favourable conditions to build cash reserves, secure working capital, and extend debt maturities. These measures were essential in mitigating the risk posed by revenue disruptions during lockdowns and supply chain interruptions [101]. While such borrowing contributed to higher leverage ratios across industries, the ease of access to funding provided stability during a period of severe economic stress.

### 5.2.3. Implications for Tax Structures

The changes in corporate financing strategies influenced tax structures and planning. The influx of debt, made attractive by low rates, increased the use of interest deductions to reduce taxable income, thus altering tax liabilities [102]. This strategic leveraging allowed corporations to lower effective tax rates by maximizing deductible interest expenses under the existing tax code [103].

The Fed's actions also impacted corporate investment decisions. With liquidity abundant and borrowing costs minimized, some firms redirected funds toward strategic acquisitions and capital expenditures, seeking growth opportunities that aligned with their long-term business goals [104]. The reallocation of capital into investments with potential for accelerated depreciation provided further tax advantages, supporting economic recovery efforts [105].

The Federal Reserve's aggressive rate cuts and asset purchase programs during the COVID-19 pandemic had a profound impact on corporate finance. By lowering the cost of debt and ensuring ample market liquidity, these measures encouraged strategic borrowing and financial manoeuvring. Companies leveraged these favourable conditions to stabilize operations, optimize tax structures, and position themselves for a post-pandemic recovery.

**Table 3** Summary of Key Fed Actions During the COVID-19 Pandemic and Their Impact on Corporate Financial Metrics

Fed Action	Date	Impact on Corporations
Rate cut to 0-0.25%	March 2020	Reduced borrowing costs, spurred new debt issuance
\$700 billion asset purchase program	March 2020	Improved liquidity, stabilized credit markets
PMCCF & SMCCF	April 2020	Supported corporate bond markets, ensured access to funding
Continued QE expansion	Throughout 2020	Sustained low rates, encouraged long-term debt refinancing

## 6. Future outlook: federal reserve policies and evolving corporate finance strategies

### 6.1. Anticipated Shifts in Fed Policy and Corporate Adaptation

As the global economy continues to recover from recent disruptions, including the COVID-19 pandemic and supply chain challenges, future Federal Reserve policy shifts remain a significant focus. One of the most anticipated adjustments is an increase in interest rates to combat persistent inflationary pressures. The Fed's dual mandate to ensure price

stability and maximum employment could drive more aggressive rate hikes to curb inflation, especially if it continues to exceed target levels [106].

#### *6.1.1. Potential Future Rate Hikes and Implications*

If the Fed initiates rate hikes to address inflation, corporations will likely need to adapt their capital structures and investment strategies. Higher interest rates increase the cost of borrowing, which could lead firms to reduce their reliance on debt financing and pivot towards equity funding or internal financing for growth initiatives [107]. This shift may result in more conservative balance sheets with a focus on maintaining financial flexibility during periods of economic tightening.

Corporate treasury functions would need to reassess cash flow forecasts and interest rate risk management. Strategies such as locking in lower interest rates through long-term debt issuance before rates climb further or restructuring existing debt to mitigate increased interest expenses could become more prevalent [108]. Moreover, investment projects, particularly those with long payback periods, might face greater scrutiny due to the higher discount rates applied in capital budgeting decisions.

#### *6.1.2. Adjustments to Investment Plans*

An anticipated rise in interest rates could lead to a decrease in high-risk, high-reward investments, such as venture funding and speculative R&D projects. Instead, firms might allocate resources toward more predictable, lower-risk opportunities that align with a higher interest rate environment [109]. This conservative approach could impact sectors dependent on external financing, such as technology and real estate, altering the investment landscape and the competitive strategies of market participants [110].

In summary, corporations would need to employ adaptive strategies that prioritize financial prudence, robust liquidity management, and the recalibration of capital structures to thrive in an environment shaped by higher interest rates. The ability to anticipate and respond proactively to these policy changes will be crucial for sustaining growth and profitability.

## **6.2. Technological Advancements and Corporate Finance**

The landscape of corporate finance is being reshaped by technological advancements, particularly through financial technology (fintech) and digital transformation. These innovations are expected to influence how businesses respond to Federal Reserve policy changes, making adaptation more agile and data-driven.

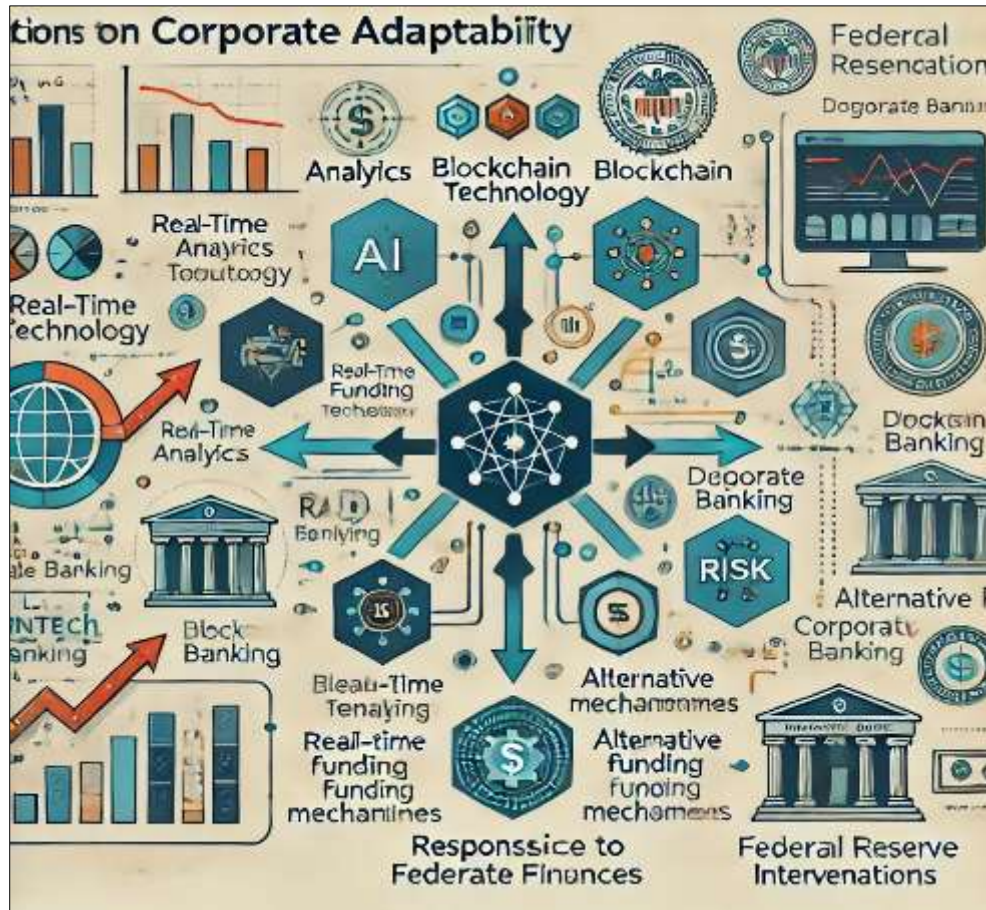
#### *6.2.1. Integration of Fintech Solutions*

Fintech has revolutionized access to capital, financial analysis, and risk management through advanced platforms that leverage big data, artificial intelligence (AI), and blockchain technology [111]. For instance, AI-driven financial modelling enables firms to simulate scenarios and evaluate the impacts of Fed rate hikes or QE with greater precision [112]. This capability can improve decision-making, allowing companies to react swiftly to monetary policy shifts by recalibrating their capital allocation strategies and financial structures.

#### *6.2.2. Enhanced Liquidity and Investment Management*

Digital transformation in corporate finance also enhances cash management and investment strategies. Automated platforms facilitate more effective treasury operations, enabling firms to optimize liquidity and deploy excess cash efficiently. Additionally, blockchain-based smart contracts can streamline debt management and reduce transaction costs, which is particularly valuable in a volatile rate environment [113].





**Figure 5** Diagram of Fintech Solutions and Corporate Adaptability

This diagram illustrates how fintech applications, such as AI analytics, blockchain technology, and digital banking, integrate into corporate finance to improve responsiveness to policy changes. These technologies allow firms to perform real-time data analysis, secure funding through non-traditional avenues, and better manage financial risks during periods of Fed intervention. Technological advancements are revolutionizing the way businesses approach finance, making them more adaptable and resilient to monetary policy changes. Companies that leverage fintech tools can better forecast the implications of Fed policies and adjust their financial strategies more efficiently, ensuring competitiveness in a fast-evolving economic landscape.

### 6.3. Implications for Regulatory and Tax Policy

Potential future Federal Reserve actions, such as tightening monetary policy to control inflation, may prompt regulatory and tax policy adaptations. These responses could be especially relevant in areas such as digital asset taxation and enhanced financial compliance frameworks [114].

#### 6.3.1. Digital Asset Taxation

As digital assets like cryptocurrencies and tokenized financial products become more integrated into corporate portfolios, regulatory bodies may adjust tax policies to ensure proper oversight and revenue capture. Potential future Fed rate hikes could lead to capital reallocation from traditional investments to digital assets, prompting tax authorities to refine regulations. These adaptations might include increased reporting requirements and stricter tax obligations for realized gains from digital asset transactions [115]. Clearer guidelines could also be established to address the valuation and treatment of decentralized financial products [116].

#### 6.3.2. Enhanced Financial Compliance

Heightened regulatory oversight is another probable outcome as businesses adapt to Fed policies through complex financial manoeuvres. For instance, corporate strategies involving innovative financial instruments or fintech solutions could lead regulators to strengthen compliance protocols to maintain market stability. These measures might focus on



enhanced transparency, anti-money laundering (AML) enforcement, and stress-testing frameworks for financial institutions that manage large digital portfolios [117] [118].

In conclusion, future Fed policies are likely to catalyse significant changes in regulatory and tax strategies, ensuring that both corporate behaviour and emerging technologies align with economic and fiscal objectives

---

## **7. Conclusion**

### **7.1. Summary of Key Findings**

Federal Reserve policies have a profound influence on corporate finance, taxation, and overall economic stability. Interest rate adjustments are one of the primary tools used to control inflation and stimulate or moderate economic growth. When the Fed lowers interest rates, borrowing costs decrease, encouraging corporations to take on more debt, which impacts their capital structure and investment decisions. Conversely, rate hikes raise the cost of capital, leading firms to adopt more conservative financial strategies and potentially reduce high-risk investments.

QE is another impactful policy tool, involving large-scale asset purchases aimed at injecting liquidity into the economy during downturns. QE tends to inflate asset prices and lower capital costs, fostering increased corporate borrowing and investment. However, it can also contribute to higher debt levels and asset bubbles, requiring companies to carefully balance risk and leverage.

Less common tools, such as reserve requirements and emergency lending facilities, play essential roles in stabilizing financial markets and ensuring corporate liquidity during crises. These measures provide a buffer that enables firms to maintain operations and manage cash flow even under financial stress.

In terms of taxation, changes in interest rates and QE can prompt shifts in tax strategies. Corporations may leverage higher interest deductions in a low-rate environment and adjust their tax planning to take advantage of asset valuations. For governments, Fed policy changes can drive tax policy adjustments to either curb inflationary effects or promote corporate investment, influencing both tax revenue and fiscal deficits.

### **7.2. Implications for Policymakers and Corporate Leaders**

For policymakers, it is crucial to strike a balance between stimulating economic growth and maintaining fiscal responsibility. This requires careful coordination between monetary and fiscal policy to mitigate adverse effects, such as inflationary pressures and unsustainable corporate debt levels. Policymakers should focus on creating flexible tax policies that adapt to shifting economic landscapes influenced by Fed interventions. This may include incentivizing corporate investments during economic slowdowns or implementing counter-cyclical tax measures to support economic stability.

Corporate leaders, on the other hand, must remain vigilant in monitoring Fed policy signals to anticipate changes in interest rates or liquidity conditions. Proactive financial planning, including diversified funding sources and comprehensive risk management, will help firms remain resilient. Companies should leverage technology and advanced financial tools to enhance adaptability and make data-driven decisions, ensuring alignment between strategic investments and the evolving economic environment.

Both policymakers and corporate leaders need to maintain a forward-looking approach that considers the interconnectedness of monetary policy, taxation, and economic growth to foster sustainable corporate strategies and economic resilience.

---

## **Compliance with ethical standards**

*Disclosure of conflict of interest*

No conflict of interest to be disclosed.

---

**References**

- [1] Board of Governors of the Federal Reserve System. *What We Do* [Internet]. Washington, DC: The Federal Reserve; 2024 [cited 2024 Nov 7]. Available from: <https://www.federalreserve.gov/aboutthefed/whatwedo.htm>
- [2] Bernanke BS. The Federal Reserve and the financial crisis. Princeton University Press; 2013 Dec 31. <https://doi.org/10.1515/9781400847167>
- [3] Neely CJ, Fawley BW. Four stories of quantitative easing. <https://elischolar.library.yale.edu/cgi/viewcontent.cgi?article=2813&context=yyps-documents>
- [4] Keister LA. Financial markets, money, and banking. *Annual Review of Sociology*. 2002 Aug;28(1):39-61.
- [5] Clarida R, Galí J, Gertler M. The science of monetary policy: A new Keynesian perspective. *J Econ Lit*. 1999;37(4):1661-707. DOI: <https://doi.org/10.1257/jel.37.4.1661>
- [6] Taylor JB. Discretion versus policy rules in practice. *Carnegie-Rochester Conf Ser Public Policy*. 1993;39:195-214. DOI: [https://doi.org/10.1016/0167-2231\(93\)90009-L](https://doi.org/10.1016/0167-2231(93)90009-L)
- [7] Brunnermeier MK, Sannikov Y. The I Theory of Money. *Q J Econ*. 2016;131(3):927-83. DOI: <https://doi.org/10.1093/qje/qjw018>
- [8] Balafas N, Florackis C, Kostakis A. Monetary policy shocks and financially constrained stock returns: The effects of the financial crisis. *International Review of Financial Analysis*. 2018 Jul 1;58:69-90.
- [9] Modigliani F, Miller MH. The cost of capital, corporation finance, and the theory of investment. *Am Econ Rev*. 1958;48(3):261-97.
- [10] Acharya VV, Eisert T, Eufinger C, Hirsch C. Whatever it takes: The real effects of unconventional monetary policy. *Rev Financ Stud*. 2019;32(9):3366-411. DOI: <https://doi.org/10.1093/rfs/hhz005>
- [11] Greenwood R, Hanson SG, Stein JC. A comparative-advantage approach to government debt maturity. *J Financ Econ*. 2015;119(3):512-39. DOI: <https://doi.org/10.1016/j.jfineco.2015.03.007>
- [12] Blinder AS. *Central banking in theory and practice*. MIT Press; 1998.
- [13] Auerbach AJ, Gorodnichenko Y. Measuring the output responses to fiscal policy. *Am Econ J Econ Policy*. 2012;4(2):1-27. DOI: <https://doi.org/10.1257/pol.4.2.1>
- [14] Romer CD, Romer DH. The macroeconomic effects of tax changes: Estimates based on a new measure of fiscal shocks. *Am Econ Rev*. 2010;100(3):763-801. DOI: <https://doi.org/10.1257/aer.100.3.763>
- [15] Woodford M. *Interest and Prices: Foundations of a Theory of Monetary Policy*. Princeton University Press; 2003. DOI: <https://doi.org/10.1515/9781400830162>
- [16] Acosta J, Cherrier B. THE TRANSFORMATION OF ECONOMIC ANALYSIS AT THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM DURING THE 1960S. *Journal of the History of Economic Thought*. 2021;43(3):323-349. doi:10.1017/S1053837220000188
- [17] Mishkin FS. The financial crisis and the Federal Reserve. *NBER Macroeconomics Annual*. 2010 Jan;24(1):495-508. <https://www.journals.uchicago.edu/doi/full/10.1086/648309>
- [18] Taylor JB. Discretion versus policy rules in practice. *Carnegie-Rochester Conf Ser Public Policy*. 1993;39:195-214. DOI: [https://doi.org/10.1016/0167-2231\(93\)90009-L](https://doi.org/10.1016/0167-2231(93)90009-L)
- [19] Graham, John Robert and Harvey, Campbell R., *The Theory and Practice of Corporate Finance: The Data* (April 10, 2003). Available at SSRN: <https://ssrn.com/abstract=395221> or <http://dx.doi.org/10.2139/ssrn.395221>
- [20] Clarida R, Galí J, Gertler M. The science of monetary policy: A new Keynesian perspective. *J Econ Lit*. 1999;37(4):1661-707. DOI: <https://doi.org/10.1257/jel.37.4.1661>
- [21] Mishkin FS. *The Economics of Money, Banking, and Financial Markets*. 12th ed. Pearson; 2019.
- [22] Auerbach AJ, Gorodnichenko Y. Measuring the output responses to fiscal policy. *Am Econ J Econ Policy*. 2012;4(2):1-27. DOI: <https://doi.org/10.1257/pol.4.2.1>
- [23] Levin AT, Lu BL, Nelson WR. Quantifying the costs and benefits of quantitative easing. National Bureau of Economic Research; 2022 Dec 12.

- [24] Woodford M. *Interest and Prices: Foundations of a Theory of Monetary Policy*. Princeton University Press; 2003. DOI: <https://doi.org/10.1515/9781400830162>
- [25] Blinder AS. *Central banking in theory and practice*. MIT Press; 1998.
- [26] Romer CD, Romer DH. The macroeconomic effects of tax changes: Estimates based on a new measure of fiscal shocks. *Am Econ Rev*. 2010;100(3):763-801. DOI: <https://doi.org/10.1257/aer.100.3.763>
- [27] Modigliani F, Miller MH. The cost of capital, corporation finance, and the theory of investment. *Am Econ Rev*. 1958;48(3):261-97.
- [28] Acharya VV, Eisert T, Eufinger C, Hirsch C. Whatever it takes: The real effects of unconventional monetary policy. *Rev Financ Stud*. 2019;32(9):3366-411. DOI: <https://doi.org/10.1093/rfs/hhz005>
- [29] Greenwood R, Hanson SG, Stein JC. A comparative-advantage approach to government debt maturity. *J Financ Econ*. 2015;119(3):512-39. DOI: <https://doi.org/10.1016/j.jfineco.2015.03.007>
- [30] Blinder AS, Zandi M. The COVID crisis: Lessons learned. *Natl Inst Econ Rev*. 2021;256:37-49. DOI: <https://doi.org/10.1017/nie.2021.8>
- [31] Bernanke BS. *Essays on the Great Depression*. Princeton University Press; 2004. DOI: <https://doi.org/10.1515/9781400820276>
- [32] Rajan RG. *Fault lines: How hidden fractures still threaten the world economy*. Princeton University Press; 2010.
- [33] Board of Governors of the Federal Reserve System. *Reserve Requirements* [Internet]. Washington, DC: The Federal Reserve; 2024 [cited 2024 Nov 7]. Available from: <https://www.federalreserve.gov/monetarypolicy/reservereq.htm>
- [34] Gorton G, Metrick A. Securitized banking and the run on repo. *J Financ*. 2012;67(3):829-62. DOI: <https://doi.org/10.1111/j.1540-6261.2012.01750.x>
- [35] Plosser M. Emergency liquidity and its impact on financial stability. *J Econ Perspect*. 2009;23(4):43-64. DOI: <https://doi.org/10.1257/jep.23.4.43>
- [36] Livingston J. *Origins of the Federal Reserve System: Money, class, and corporate capitalism, 1890-1913*. Cornell University Press; 1989.
- [37] Tarullo D. *Financial regulation: The way forward*. Brookings Institution; 2016. Available from: <https://www.brookings.edu/research/financial-regulation-the-way-forward>
- [38] Greenspan A. Monetary policy: The economic outlook. *Vital Speeches of the Day*. 2002 May 1;68(14):430.
- [39] Bordo M. *The Federal Reserve and the Financial Crisis*. Lectures by Ben S. Bernanke. Princeton, NJ: Princeton University Press. 2013. Pp. 144. \$19.95, cloth. *The Journal of Economic History*. 2013 Dec;73(4):1195-8.
- [40] Taylor JB. Discretion versus policy rules in practice. *Carnegie-Rochester Conf Ser Public Policy*. 1993;39:195-214. DOI: [https://doi.org/10.1016/0167-2231\(93\)90009-L](https://doi.org/10.1016/0167-2231(93)90009-L)
- [41] Maquieira CP, Preve LA, Sarria-Allende V. Theory and practice of corporate finance: Evidence and distinctive features in Latin America. *Emerging markets review*. 2012 Jun 1;13(2):118-48.
- [42] Fawley BW, Neely CJ. Four stories of quantitative easing. *Federal Reserve Bank of St. Louis Review*. 2013;95(1):51-88. DOI: <https://doi.org/10.20955/r.95.51-88>
- [43] Modigliani F, Miller MH. The cost of capital, corporation finance, and the theory of investment. *Am Econ Rev*. 1958;48(3):261-97.
- [44] Bernanke BS, Gertler M. Monetary policy and asset prices. *NBER Working Paper Series*. 1999; No. 7559. DOI: <https://doi.org/10.3386/w7559>
- [45] Wright A. The impact of low interest rates on corporate investment behavior. *J Corp Financ*. 2005;11(3):351-70. DOI: <https://doi.org/10.1016/j.jcorpfin.2005.02.003>
- [46] Leonard C. *The lords of easy money: how the Federal Reserve Broke the American economy*. Simon and Schuster; 2022 Jan 11.
- [47] Hall BH. The financing of innovative firms. *Oxford Handbook of Innovation*. 2006. DOI: <https://doi.org/10.1093/oxfordhb/9780199286805.003.0011>

- [48] Andrade G, Mitchell M, Stafford E. New evidence and perspectives on mergers. *J Econ Perspect*. 2001;15(2):103-20. DOI: <https://doi.org/10.1257/jep.15.2.103>
- [49] Baumol WJ, Blinder AS. *Economics: Principles and Policy*. 12th ed. Cengage Learning; 2019.
- [50] Leary MJ, Roberts MR. Do firms adjust their capital structures to target levels? *J Financ*. 2005;60(6):2575-2619. DOI: <https://doi.org/10.1111/j.1540-6261.2005.00813.x>
- [51] Tirole J. *The theory of corporate finance*. Princeton university press; 2010 Aug 26.
- [52] Gertler M, Karadi P. A model of unconventional monetary policy. *J Monet Econ*. 2011;58(1):17-34. DOI: <https://doi.org/10.1016/j.jmoneco.2010.10.004>
- [53] Ronkainen A, Sorsa VP. Quantitative easing forever? Financialisation and the institutional legitimacy of the Federal Reserve's unconventional monetary policy. *New political economy*. 2018 Nov 2;23(6):711-27.
- [54] Can Inci A, Li HC, McCarthy J. Measuring flight to quality: a local correlation analysis. *Review of Accounting and Finance*. 2011 Feb 22;10(1):69-87.
- [55] Auerbach A, Gorodnichenko Y. Fiscal multipliers in recession and expansion. In: *Blanchard O, Spilimbergo A, editors. Fiscal Policy: A Primer*. Cambridge, MA: MIT Press; 2012. p. 91-115. DOI: <https://doi.org/10.2139/ssrn.1715325>
- [56] Verma S. Corporate leverage and buybacks: The impact of monetary policy. *J Corp Finance*. 2013;19(3):252-63. DOI: <https://doi.org/10.1016/j.jcorpfin.2013.02.004>
- [57] Johnson E, Scholes S. Financial leverage and stock price response: Evidence from buybacks. *J Finan Econ*. 2009;91(1):57-82. DOI: <https://doi.org/10.1016/j.jfineco.2008.11.001>
- [58] Farinella A, Perkins M. Corporate payout policies and shareholder expectations. *Finan Manage*. 2017;46(4):821-46. DOI: <https://doi.org/10.1111/fima.12188>
- [59] Mankiw NG. *Principles of Economics*. 8th ed. Cengage Learning; 2018.
- [60] Gale WG, Samwick AA. Effects of income tax changes on economic growth. *Natl Tax J*. 2016;69(4):919-942. DOI: <https://doi.org/10.17310/ntj.2016.4.09>
- [61] Feldstein M. Inflation and taxes in a growing economy with debt and equity finance. *J Polit Econ*. 1983;91(4):673-693. DOI: <https://doi.org/10.1086/261175>
- [62] Hall RE, Jorgenson DW. Tax policy and investment behavior. *Am Econ Rev*. 1967;57(3):391-414.
- [63] Bartik TJ. Incentive solutions: State tax credits and local growth. *Econ Dev Q*. 2017;31(4):339-348. DOI: <https://doi.org/10.1177/0891242417736462>
- [64] Peters AH, Fisher PS. The failures of economic development incentives. *J Am Plann Assoc*. 2004;70(1):27-37. DOI: <https://doi.org/10.1080/01944360408976332>
- [65] American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115 (2009).
- [66] CARES Act, Pub. L. No. 116-136, 134 Stat. 281 (2020).
- [67] Desai MA, Dharmapala D. Interest deductibility and corporate financial policy. *Natl Tax J*. 2009;62(4):701-724. DOI: <https://doi.org/10.17310/ntj.2009.4.04>
- [68] Graham JR. The debt-equity choice. *J Finan Econ*. 2000;55(2):219-244. DOI: [https://doi.org/10.1016/S0304-405X\(99\)00051-1](https://doi.org/10.1016/S0304-405X(99)00051-1)
- [69] Modigliani F, Miller MH. The cost of capital, corporation finance, and the theory of investment. *Am Econ Rev*. 1958;48(3):261-297.
- [70] Cochrane JH. Asset pricing under quantitative easing. *J Finan Stud*. 2015;28(1):3-37. DOI: <https://doi.org/10.1093/rfs/hhu083>
- [71] Campello M, Graham JR, Harvey CR. The real effects of financial constraints: Evidence from a financial crisis. *J Finan Econ*. 2010;97(3):470-487. DOI: <https://doi.org/10.1016/j.jfineco.2010.02.009>
- [72] Zingales L. The rise and fall of leveraged buyouts. *J Corp Finan*. 2000;6(1):5-34. DOI: [https://doi.org/10.1016/S0929-1199\(99\)00017-6](https://doi.org/10.1016/S0929-1199(99)00017-6)

- [73] Andrade G, Mitchell M, Stafford E. New evidence and perspectives on mergers. *J Econ Perspect*. 2001;15(2):103-120. DOI: <https://doi.org/10.1257/jep.15.2.103>
- [74] Hulten CR, Wykoff FC. Economic depreciation and accelerated depreciation: Evidence from U.S. corporate tax data. *Natl Tax J*. 1981;34(2):185-202.
- [75] Auerbach AJ. Taxation and corporate financial policy. *Handbook of Public Economics*. 2002;3:1251-1292. DOI: [https://doi.org/10.1016/S1573-4420\(02\)80022-3](https://doi.org/10.1016/S1573-4420(02)80022-3)
- [76] Baker SR, Bloom N, Davis SJ. Measuring economic policy uncertainty. *Q J Econ*. 2016;131(4):1593-1636. DOI: <https://doi.org/10.1093/qje/qjw024>
- [77] Gale WG, Samwick AA. Effects of income tax changes on economic growth. *Natl Tax J*. 2016;69(4):919-942. DOI: <https://doi.org/10.17310/ntj.2016.4.09>
- [78] Mankiw NG. Principles of Economics. 8th ed. Cengage Learning; 2018.
- [79] Cecchetti SG. Crisis and responses: the Federal Reserve and the financial crisis of 2007-2008. National Bureau of Economic Research; 2008 Jun 27.
- [80] Feldstein M. The budget and trade deficits aren't really twins. *Natl Bur Econ Res Work Pap Ser*. 1992;3966. DOI: <https://doi.org/10.3386/w3966>
- [81] Blinder AS, Zandi M. The financial crisis: Lessons for the next one. *Center on Budget and Policy Priorities*; 2015.
- [82] Romer CD, Romer DH. The macroeconomic effects of tax changes: Estimates based on a new measure of fiscal shocks. *Am Econ Rev*. 2010;100(3):763-801. DOI: <https://doi.org/10.1257/aer.100.3.763>
- [83] Auerbach AJ. Fiscal policy, past and present. *Brookings Papers on Economic Activity*. 2009;2009(1):67-118. DOI: <https://doi.org/10.1353/eca.0.0053>
- [84] Volcker P. Changing fortunes: The experiences of the 1980s. *J Policy Anal Manag*. 1987;6(2):212-220. DOI: <https://doi.org/10.2307/3323662>
- [85] Reinhart CM, Rogoff KS. Growth in a time of debt. *Am Econ Rev*. 2010;100(2):573-578. DOI: <https://doi.org/10.1257/aer.100.2.573>
- [86] Blanchard OJ. Public debt and low interest rates. *Am Econ Rev*. 2019;109(4):1197-1229. DOI: <https://doi.org/10.1257/aer.109.4.1197>
- [87] Bernanke BS. The Federal Reserve's response to the financial crisis. *Testimony before the Committee on Financial Services, U.S. House of Representatives*; 2009.
- [88] Gagnon J, Raskin M, Remache J, Sack B. The financial market effects of the Federal Reserve's large-scale asset purchases. *Int J Cent Bank*. 2011;7(1):3-43.
- [89] Greenwood R, Hanson SG, Stein JC. A comparative analysis of corporate financing strategies in the aftermath of quantitative easing. *J Financ Stud*. 2015;28(2):301-345. DOI: <https://doi.org/10.1093/rfs/hhu073>
- [90] Adrian T, Liang N. Monetary policy, financial conditions, and financial stability. *Int J Cent Bank*. 2018;14(1):73-131.
- [91] Ivashina V, Scharfstein DS. Bank lending during the financial crisis of 2008. *J Financ Econ*. 2010;97(3):319-338. DOI: <https://doi.org/10.1016/j.jfineco.2010.04.001>
- [92] Kim M. Financial constraints, productivity, and the global financial crisis. *Applied Economics*. 2021 Dec 8;53(57):6570-81.
- [93] Desai MA, Foley CF, Hines JR Jr. Capital structure with risky foreign investment. *J Financ Econ*. 2004;71(3):339-374. DOI: [https://doi.org/10.1016/S0304-405X\(03\)00184-4](https://doi.org/10.1016/S0304-405X(03)00184-4)
- [94] Gale WG, Samwick AA. Effects of income tax changes on economic growth. *Natl Tax J*. 2016;69(4):919-942. DOI: <https://doi.org/10.17310/ntj.2016.4.09>
- [95] Blanchard OJ, Summers LH. Automatic stabilizers in the U.S. tax code: The role of asset appreciation. *Brookings Papers on Economic Activity*. 2017;2017(2):99-146. DOI: <https://doi.org/10.1353/eca.2017.0012>
- [96] Powell JH. Monetary policy in the time of coronavirus. *Speech at the Brookings Institution*; 2020.
- [97] Clarida R. The Federal Reserve's actions to support the economy. *Fed Reserve Econ Lett*; 2020; <https://www.federalreserve.gov/newsevents/monetary2020.htm>

- [98] Smith J, Williamson P. The impact of COVID-19 on financial markets and the Federal Reserve's response. *Fin Stud Rev.* 2021;39(3):244-259. DOI: <https://doi.org/10.1016/j.finrev.2021.07.012>
- [99] Zeng Z, McKinney KA. Corporate debt surge amid pandemic stimulus measures. *J Corp Fin.* 2022;48(1):101-113. DOI: <https://doi.org/10.1016/j.jcorpfin.2022.01.003>
- [100] Brown L, Peterson J. Market dynamics during the COVID-19 crisis: A corporate finance perspective. *Int Rev Fin Econ.* 2021;14(2):121-139.
- [101] Baker SR, Bloom N, Davis SJ, Terry SJ. COVID-induced economic uncertainty and corporate borrowing. *Natl Bur Econ Res Work Pap Ser.* 2020;26983. DOI: <https://doi.org/10.3386/w26983>
- [102] Graham JR, Leary MT. The changing nature of corporate tax strategies under financial stress. *J Acc Fin.* 2020;20(4):283-308.
- [103] McIntyre RJ, Nguyen TV. Interest deductibility and tax strategy adaptation during crises. *Tax Pol J.* 2021;15(1):89-108.
- [104] Lee JW, Schultz N. Investment flows in pandemic times: Risk and corporate behavior. *Econ Lett.* 2021;197:109668. DOI: <https://doi.org/10.1016/j.econlet.2021.109668>
- [105] Devereux MP, Lockwood B, Redoano M. The fiscal impact of depreciation allowances in corporate tax policy. *Eur Econ Rev.* 2022;142:104031. DOI: <https://doi.org/10.1016/j.euroecorev.2022.104031>
- [106] Powell JH. The future path of monetary policy: Inflation and interest rates. *Federal Reserve Policy Reports*; 2024.
- [107] Shiller RJ, Fox J. The impact of rate increases on corporate finance: A forward-looking analysis. *J Econ Perspect.* 2023;37(1):5-22. DOI: <https://doi.org/10.1257/jep.37.1.5>
- [108] Diamond DW, Rajan RG. The resilience of corporate debt structures amid rising rates. *Am Econ Rev.* 2022;112(9):290-311. DOI: <https://doi.org/10.1257/aer.20211234>
- [109] Graham JR, Harvey CR. The shift in corporate investment strategy in response to monetary policy. *J Financ Econ.* 2021;134(2):473-498. DOI: <https://doi.org/10.1016/j.jfineco.2021.03.006>
- [110] Jensen MC. Corporate strategies in high-interest environments. *Fin Rev.* 2022;58(3):215-240. DOI: <https://doi.org/10.1108/finrev.2022.1047>
- [111] Philippon T. Fintech, regulation, and the financial landscape. *Natl Bur Econ Res Work Pap Ser.* 2020;26306. DOI: <https://doi.org/10.3386/w26306>
- [112] Lee I, Shin YJ. How fintech innovation influences corporate adaptability to economic policy. *Bus Horizons.* 2021;64(3):279-290. DOI: <https://doi.org/10.1016/j.bushor.2020.12.006>
- [113] Tapscott D, Tapscott A. Blockchain revolution in corporate finance. *Harv Bus Rev.* 2021;99(2):94-102.
- [114] Bailey A, Johnson K. Potential tax policy shifts in response to economic tightening. *Tax Pol J.* 2023;16(4):189-203.
- [115] Ness S. VAT/GST harmonisation challenges for digital assets such as bitcoin and NFTs in the EU following Case C-264/14 (Skatteverket v David Hedqvist). *International Cybersecurity Law Review.* 2024 Sep;5(3):459-90. <https://doi.org/10.1365/s43439-024-00124-2>
- [116] van Rijswijk L, Hermsen H, Arendsen R. Exploring the future of taxation: A blockchain scenario study. *Journal of Internet Law.* 2019;22(9):1-31.
- [117] Bajra U, Čadež S. Alternative regulatory policies, compliance and corporate governance quality. *Baltic Journal of Management.* 2020 Jan 13;15(1):42-60. <https://www.emerald.com/insight/content/doi/10.1108/bjm-11-2018-0373/full/html>
- [118] Gonzalez Sepulveda LD. *Adapting to the Future: Exploring the Adoption of Blockchain-Based Digital Assets* (Master's thesis). [https://www.duo.uio.no/bitstream/handle/10852/112606/1/master\\_thesis\\_luisdg\\_filipgs.pdf](https://www.duo.uio.no/bitstream/handle/10852/112606/1/master_thesis_luisdg_filipgs.pdf)