

More information

Index

AAA-rated assets	Bear Sterns, 112
elastic supply of new AAA-rated paper,	Belgium, 56
30–32	Bernanke, Ben, 28, 93, 94, 99, 101
hunger for, 29–30	Bernoth, K., 457, 458
Adrian, T., 416, 445	Bi, H., 60
affine models, 256–259, 415–417	Bianchi, F., 204
risk premia, 269–275	Bjork, Tomas, 174
affine term structures	Black, Fischer, 244, 254, 284
Gaussian VaR factors and, 155-156	Bloom, N., 331
Alesina, A., 70	BNP Paribas, 1
Allen, F., 95	bonds
Amato, Jeffery, 21	commercial, 38
Andrès, J., 508	government, see government bonds
Ang, A., 275, 288, 416, 457, 459, 485,	interventions in bond markets, 83
504	Borri, N., 143
arbitrage, 303	break clauses in derivatives contracts, 131
interest rates and, 39	breakeven inflation rate (BEIR), 361-364
assets	366, 374, 379, 383, 428
AAA-rated assets	Buiter, W., 59
elastic supply of new AAA-rated	Burity, P., 504
paper, 30-32	
hunger for, 29–30	Calvo, G., 70
consequences of low long-term interest	Cassola, N., 82
rates and, 24	Cecchetti, S., 56
high government debt and asset	central banks, 82
substitutability across maturities, 32	European Central Bank (ECB), 57, 62,
increased regulatory demands to hold	82
government bonds, 35-39	prohibition of direct lending, 63
net asset value (NAV), 132	Chadha, J. S., 48, 62, 94, 218, 525
Atkeson, A., 391, 393, 405, 408	Chari, V. V., 61
autoregressive gamma latent factors,	Chen, RR., 260, 262
153–155	Chernov, M., 365, 417, 445
	Christensen, Bent Jesper, 174
bailouts, 83	Christensen, J. H. E., 106, 174, 175, 395,
Baker, S. R., 331	416
banking sector, 84	Clarida, R., 235, 331, 336
contingent capital securities, 134–136	Cochrane, J. H., 60, 268, 327, 328, 334,
derivatives and, 124, 131	395, 396
hedging by, 123	Cole, H., 70
bankruptcy, 127	commercial bonds, 38
Bauer, M. D., 253	composite index of systemic stress (CISS)
Baum, A., 56	69

534



More information

compound auto-regressive (Car) processes, 141, 143, 164, 165	data, 518–520, 527–531 econometric strategy, 515–518
application to credit risk premia in	empirical analysis, 518–524
Italian and Spanish sovereign yields,	impulse response analysis, 520–523
160–163	policy implications, 525–527
assumptions, 146	sample extension of model to test
autoregressive gamma latent factors, 153–155	effects of crisis, 523–524
computation of defaultable bond prices,	theoretical framework, 508–515
147–148	consequences of low long-term interest
definition, 144	rates and, 23
Gaussian VaR factors	government debt management and
affine term structures and, 155–156	long-term interest rates, 44–50 coordination between central banks
quadratic term structures and,	and debt managers, 47–50
156–157	macroeconomic responses of
switching Gaussian VaR factors,	government debt managers, 45–47
157–159	high government debt and asset
inference, 159–160	substitutability across maturities,
internal-consistency conditions, 149	32–35, 51
multi-horizon Laplace transform, 145	Dedola, L., 71
non-zero recovery rate, 148–149	default
P-dynamics, 149–151	credit default swaps (CDSs), 122
Q-dynamics, 149–151	defaultable bond prices, 147–148
sdf, 149–153	probabilities of default (PDs), 142
short rate, 149–151	deficits
constant net asset value (CNAV) funds,	fiscal, see fiscal deficits
132	DeLong, J. Bradford, 52
contingent capital securities, 134–136	demand for government bonds, 19
Corsetti, G., 71	Dempster, M. A. H., 288
counterparty risk correlation, 122–127	derivatives, 124
Cox, J., 244, 256, 260	break clauses, 131
credit default swaps (CDSs), 122	pricing, 255
credit risk, 2	Deutsche Bank, 132
credit risk premia, 142	Dewachter, H., 203, 391, 392, 395, 396,
in Italian and Spanish sovereign	408
yields, 160–163	Diebold, F. X., 175, 203, 204, 212
Cummins, Clint, 176	dimensionality of yield curves, 169-171,
Dai, Q., 257, 258, 260, 262, 275	192–197
D'Amico, S., 391, 416, 445	UK government bonds, 169-177
Davis, S. J., 331	data and results, 177–192
De Pooter, M., 174	dimensions of cross-section of yields
debt problems, 1	before and after 2008, 178-180
case of the euro area, 56–58	dimensions of the evolution of the
ECB actions, 72	yield curve, 189–192
institutional arrangements of EMU,	estimating term structure, 176
61–65	principal components analysis, 177
interaction between sovereign debt	stability of yield curve dimensions
crisis and banks' funding, 65-72	before 2008, 180
interplay between fiscal and monetary	yield curve dimensions and effects of
policies, 58-65	quantitative easing, 180-189
lessons learned, 82–86	discrete choice dynamics term structure
sovereign debt crisis, 65-82	models, 245
consequences of large fiscal imbalances	dot-com bubble, 111
on long-term interest rates,	Duffee, G. R., 395–396
504–508	Duffie, D., 148, 257



More information

536 Index

Durré, A., 59, 65 economic growth and development interest rates, 21 United States of America, 108, 113, 116, 239–242 Eggertson, G., 189 Ehrmann, M., 417 Engen, E. M., 505 European Central Bank (ECB), 57, 62, 65 European Financial Stability Facility (EFSF), 58, 85 European Stabilisation Mechanism (ESM), 58 European Systemic Risk Board (ESRB), 58,85 European Union (EU) European sovereign yield spreads in Gaussian macro-finance term structure model environment, 457-459, 485-486 bootstrap procedure, 492 data, 462-466, 489 estimation strategy, 466-469 extending the sample, 479-481 factor loadings along spread curve, 470 factors driving the spreads, 470 identification hypothesis, 490-492 impulse responses, 472-478 model, 459-462 parameter estimates, 469-470, 493 Proposition, 487-489 results, 469-478 Riccati difference equations, 486 robustness, 484-485 term structure model for defaultable bonds, 460-462 term structure model for non-defaultable bonds, 459 inflation compensation and inflation risk premia in euro area term structure of interest rates, 361-363, 383 data and estimation methods, 366-370 inflation compensation and inflation risk premia, 379-383 measurement errors and liquidity premium in euro area, 373-379 model setup, 364-366 model specification, 384-388 robustness check, 381-383 term structure of inflation risk premia, 363-370 sovereign debt and monetary policy in the euro area, 56–58

ECB actions, 72-82 institutional arrangements of EMU, 61-65 interaction between sovereign debt crisis and banks' funding, 65-72 interplay between fiscal and monetary policies, 58-65 lessons learned, 82-86 sovereign debt crisis, 65-82 Stability and Growth Pact (SGP), 65 surprises in euro area and US term structures, 412-415, 446-447 data, 418-424 effect of surprises on interest rates, 424-427 effects of surprises on term structure, 437-441 estimation problem, 427-429 expected inflation and inflation risk premia during the crisis, 436-437 literature, 415-418 macroeconomic and monetary surprises, 419-424, 438-441, 450-451 model, 427-430 nominal and real affine term structure models, 415-417 nominal and real zero-coupon rates, 418-419 nominal term structure, 449-450 number of factors and robustness checks, 444-446 real term structure, 447-449 results of model, 430-437 role of monetary aggregates, 423-424 specification of the model, 451-452 surprises and term structure models, 417-418 surprises-augmented model, 429-430 Evans, M., 415, 428 expectations, 142 inflation, 433, 436-437 interest rates, 22, 34 expectations hypothesis (EH), 100, 105, 114-116, 142, 303 rational, 272, 273 Taylor rule and, 334, 335 unstable, 39

factor models, see intelligible factor models

implementation of monetary policy,

Faraglia, Elisa, 46

Federal Reserve

Faust, J., 391, 404, 409

301-302



More information

Index 537

repo and federal funds market, 293-296, econometric setting, 397-399 empirical results, 399-408 323-324 estimation, 396-399 background, 296-302 empirical preliminaries and extended macro-finance (EMF) model, framework, 302-310 392, 394-396, 408 results of study, 310-323 inflation forecasting, 404-408 macro-finance framework, 393-395 response to financial crisis, 90-91, macro-finance model with financial 115 - 116factors, 393-396 conventional versus unconventional monetary policy, 91-93 vield spread decomposition, 399-404 Fratzscher, M., 417 counterproductivity of QE and Friedman, Milton, 44, 51, 95, 116 Operation Twist, 106-110 funds rate target and forward Gale, D., 95 guidance, 98-100 Gale, W., 505 how the Fed should have responded, Gali, J., 331, 336 110-115 García, J. A., 416, 445 post-Lehman monetary policy, Gaussian models, 265 96 - 110constant volatility, 282 pre-Lehman monetary policy, 93-96 European sovereign yield spreads in quantitative easing, 100-105 Gaussian macro-finance term sterilized lending, 94-96 structure model environment, Feldhütter, P., 395 457-459, 485-486 Feunou, B., 245 bootstrap procedure, 492 filter-based estimation, 260 data, 462-466, 489 fiscal deficits, 2, 33 estimation strategy, 466-469 consequences of large fiscal imbalances extending the sample, 479-481 on long-term interest rates, factor loadings along spread curve, 504-508 470 data, 518-520, 527-531 factors driving the spreads, 470 econometric strategy, 515-518 identification hypothesis, 490-492 empirical analysis, 518-524 impulse responses, 472-478 impulse response analysis, 520-523 model, 459-462 policy implications, 525-527 parameter estimates, 469-470, 493 sample extension of model to test Proposition, 487–489 effects of crisis, 523-524 results, 469-478 theoretical framework, 508-515 Riccati difference equations, 486 consequences of low long-term rates robustness, 484-485 and, 25 term structure model for defaultable fiscal dominance, 33 bonds, 460-462 fiscal policy: interplay between fiscal and term structure model for monetary policies in the euro area, non-defaultable bonds, 459 58-65 Gaussian VaR factors general theoretical considerations and affine term structures and, 155-156 potential risks, 58-61 quadratic term structures and, 156-157 institutional arrangements of EMU, switching Gaussian VaR factors, 61 - 65157-159 Gavin, W. T., 333 fiscal theory of the price level (FTPL), 59 Fisher, M., 418 generalised method of moments (GMM) Fisher, Paul, 50 approach, 268 Fleming, M. J., 424 geometric Brownian motion (GBM) Fontaine, J.-S., 221, 223, 236, 245 model, 269 forecasting: predictive content of yield Georgoutsos, D. A., 458 curve for inflation, 390-393, Germany 408-409 credit risk premia compared to Italy and data, 396-397 Spain, 160–163



More information

538 Index

debt, 519, 523, 526 Great Moderation, 21 Greece, 67, 68 hyperinflation, 61 sovereign yield spreads in Gaussian intelligible factor models and, 204, 213 interest rates, 60, 506, 507, 518, 521, macro-finance term structure model 524, 525 environment, 462-466, 470, 477, 478, 481, 485, 486 sovereign yield spreads in Gaussian macro-finance term structure model Greenspan, Alan, 331, 340, 392, 403 Guidolin, M., 100 environment, 462-466, 470, 473, Gürkaynak, R. S., 418 477, 480, 481, 485 Gertler, M., 331, 336 'habitat' choices of investors, 29-30 Gibson, R., 504 Hagen, J. von, 457, 458 Gourieroux, C., 153 Hall, Bronwyn, 176 government and the state Hamilton, J. D., 253, 268, 271, 275, 281, bonds, see government bonds 305 debt, see debt problems Hannoun, Hervé, 39 dependence, 343 Haubrich, J., 416, 445 support for banking sector, 1 hedging, 123 government bonds, 29 herding effects, 39 demand for, 19 Hicks, John, 21 dimensionality of yield curves on UK Hollo, D., 69 government bonds, 169-192 Hoogduin, L. H., 50 increased regulatory demands to hold Hördal, P., 417, 445 government bonds, 35-39 housing market, 111, 125, 127, see also index linked, 412 mortgages supply, 30-32 Howson, Susan, 41 surprises in euro area and US term Huang, J. Z., 142 structures, 412-415, 446-447 Huang, M., 142 data, 418-424 Hubbard, G. R., 505 effect of surprises on interest rates, hyperinflation, 61 424-427 effects of surprises on term structure, Iania, L., 392, 396, 408 437-441 inflation estimation problem, 427-429 breakeven inflation rate (BEIR), 361, expected inflation and inflation risk 363, 364, 366, 374, 379, 383, 428 premia during the crisis, 436-437 expectations, 436-437 literature, 415-418 hyperinflation in Germany, 61 macroeconomic and monetary inflation compensation and inflation risk surprises, 419-424, 438-441, premia in euro area term structure 450-451 of interest rates, 361-363, 383 model, 427-430 data and estimation methods, nominal and real affine term structure 366-370 models, 415-417 inflation compensation and inflation nominal and real zero-coupon rates, risk premia, 379-383 418, 419 measurement errors and liquidity nominal term structure, 449-450 premium in euro area, 373-379 number of factors and robustness model setup, 364-366 checks, 444-446 model specification, 384-388 real term structure, 447-449 robustness check, 381-383 results of model, 430-437 term structure of inflation risk premia, role of monetary aggregates, 423-424 363-370 specification of the model, 451–452 predictive content of yield curve for surprises and term structure models, inflation, 390-393, 408-409 417-418 data, 396-397, 399 surprises-augmented model, 429-430 econometric setting, 397 US federal funds market, 299-301 empirical results, 399-408



More information

Index 539

estimation, 396-399 extended macro-finance (EMF) model, 392, 394-396, 408 inflation forecasting, 404-408 macro-finance framework, 393-395 macro-finance model with financial factors, 393-396 yield spread decomposition, 399-404 United States of America, 107 Ingersoll, J. E., 256, 260 insurance, 36, 122, 125 debt management and fiscal insurance, 46 intelligible factor models, 200-201, 213 common international trends, 208 common stylized facts, 205 data, 204 recent literature, 203-204 review, 201, 203 simpler alternatives, 208 key rates, 210-211 principal components analysis and Nelson-Siegel model, 211-213 interest rates, 2, 19, 20, 50-52 classical theory, 115 consequences of large fiscal imbalances on long-term interest rates, 504-508 data, 518-520, 527-531 econometric strategy, 515-518 empirical analysis, 518-524 impulse response analysis, 520-523 policy implications, 525-527 sample extension of model to test effects of crisis, 523-524 theoretical framework, 508-515 consequences of low long-term rates, 22 cheaper leverage, 23-24 increased interest rate exposure, 25 increased tolerance for fiscal deficits, 24 - 25effect of surprises on, 424-427 estimating policy rule from money market rates when target rate changes are lumpy, 216-219, 245 challenges ahead, 244-245 data, 225 effective spread, 229-230 estimation, 225-228 filter and likelihood, 228 link with economic conditions, 239-242 measurement equations, 226-228 modelling short-term interest rates, 219 - 223

policy announcement at the lower band, 242-244 policy rules in practice, 219-220, 230-232 results, 229-239 target rate models, 221-223 term structure models, 223-225, 232 - 239expectations, 22, 34 expectations hypothesis (EH), 100, 105, 114-116, 142, 303 Germany, 60, 506, 507, 518, 521, 524, 525 government debt management and long-term interest rates, 44-50 coordination between central banks and debt managers, 47-50 macroeconomic responses of government debt managers, 45-47 high government debt and asset substitutability across maturities, 35, 51 historical overview of real long-term interest rates, 20-22 inflation compensation and inflation risk premia in euro area term structure of interest rates, 383 data and estimation methods, 366-370 inflation compensation and inflation risk premia, 379-383 measurement errors and liquidity premium in euro area, 373-379 model setup, 364–366 model specification, 384-388 robustness check, 381-383 term structure of inflation risk premia, 363-370 Italy, 506, 507, 518, 520, 522, 524, 525 long-term interest rate as policy variable, 51 Keynes and the National Debt Enquiry, 40-42 monetary policy and long-term interest rate, 39-45 Radcliffe Report, 42-44 Tobin/Friedman and, 44-45 long-term interest rate as policy victim, 50 'habitat' choices of investors, 29-30 macroeconomic factors, 28 United Kingdom, 21, 60 Keynes and the National Debt Enquiry, 40-42 Radcliffe Report, 42-44



More information

```
United States of America, 20, 27, 60,
                                              liquidity rules, 37
       93, 114, 116, 506, 508, 518, 520,
                                              liquidity trap, 40
                                              Litterman, R., 259, 431
       523, 525
    funds rate target and forward
                                              Liu, J., 395
                                              Longstaff, F., 143, 377, 458
Lyrio, M., 396
      guidance, 98-100
Ireland, 67
Ireland, P. N., 383
Italy, 56
                                              McCulloch, J. Huston, 169, 172, 175, 176
  credit risk premia in sovereign yields,
                                              Mandal, R. J., 333
       160-163
                                              Marattin, L., 458, 485
  debt problems, 519, 523, 526
                                              master trusts, 130
  interest rates, 506, 507, 518, 520, 522,
                                              maturity: high government debt and asset
      524, 525
                                                     substitutability across maturities,
  sovereign yield spreads in Gaussian
                                                     32-35, 51
      macro-finance term structure model
                                              maximum likelihood estimation (MLE),
       environment, 457, 470, 473, 478,
                                                     259, 281
      480, 481, 485
                                              Medova, E. A., 288
                                              method-of-moments-based estimation,
James, J., 253, 254
                                                     260
Japan, 113, 284
                                              Migiakis, P. M., 458
Jong, F. de, 255
                                              millennium bug (Y2K), 95
Joslin, S., 253, 268, 271–273, 275, 395
                                              Mills, Terence, 21
Joyce, M. A. S., 35, 103, 189, 364, 369,
                                              Mönch, E., 204
      391, 415, 416
                                              monetary dominance, 33
                                              monetary policy, 25-28, 504
Kahn, R. F., 43
                                                case of the euro area, 56-58
Kan, R., 257
                                                   ECB actions, 72
Kehoe, P., 61
                                                   institutional arrangements of EMU,
Kehoe, T., 70
                                                     61 - 65
Keynes, John Maynard, 20, 40-43, 47, 51
                                                   interaction between sovereign debt
Kim, D. H., 244
                                                     crisis and banks' funding, 65-72
Kinoshita, N., 505
                                                   interplay between fiscal and monetary
Kochin, Levis A., 176
                                                     policies, 58-65
Lando, D., 395
                                                   lessons learned, 82-86
Laubach, T., 505
                                                   sovereign debt crisis, 65-82
                                                implementation, 301-302
Le, A., 258, 275
Leeper, E., 59, 60
                                                long-term interest rate and, 39-45
                                                   Keynes and the National Debt
Lehman Brothers, 65, 81, 91, 96, 113, 115
                                                     Enquiry, 40-42
Leith, C., 60
Lengwiler, Yvan, 201, 208
                                                   Radcliffe Report, 42-44
Lenz, Carios, 201, 208
                                                   Tobin/Friedman and, 44–45
leverage, consequences of low long-term
                                                open market operations, 2, 40, 44, 81,
                                                     308
      interest rates and, 23-24
                                                policy uncertainty, 346-356
Levin, A., 333
Li, C., 175, 203, 204, 212
                                                surprises, 438-439
liabilities: present discounted value (PDV),
                                                Taylor rule and, 326–329
      37
                                                   background and related literature,
                                                     329-331
Libor market model, 255
liquidity crisis, 1
                                                   cross-sectional Taylor rules, 339-342
liquidity effect, 91
                                                   data, 331-332
liquidity premia, 42
                                                   identification of Taylor rules with
  measurement errors and liquidity
                                                     forecast data, 332-335
      premium in euro area, 373-379
                                                   individual Taylor rules, 342-346
liquidity problems, 83
                                                   time-invariant consensus Taylor rules,
liquidity risk, 2
                                                     335-339
```



More information

US Federal Reserve's response to	filter and likelihood, 228
financial crisis, 90-91, 115-116	link with economic conditions, 239-242
conventional versus unconventional	measurement equations, 226-228
monetary policy, 91-93	modelling short-term interest rates,
counterproductivity of QE and	219–223
Operation Twist, 106–110	policy announcement at the lower band,
funds rate target and forward	242-244
guidance, 98–100	policy rules in practice, 219–220,
how Fed should have responded,	230–232
110–115	results, 229–239
post-Lehman monetary policy,	target rate models, 221–223
96–110	term structure models, 223–225,
pre-Lehman monetary policy, 93–96	232–239
quantitative easing, 100–105	policy uncertainty, 346–356
sterilized lending, 94–96	portfolio choice
zero lower bound (ZLB) constraint, 39	uncertainty and, 45
Monfort, A., 143, 148, 160	Portugal, 67
moral hazard, 86, 133	practical yield curve model, 251–253, 287
mortgages, 125	affine models, 256–259
interest rates and, 34	risk premia, 269–275
mortgage-backed securities, 94	literature review, 253–259
RMBS master trusts, 130	model evaluation
structured investment vehicles (SIVs),	another candidate, 262–265
128, 129	basic considerations, 259–260
Mueller, P., 365, 417, 445	care in likelihood optimization,
multi-horizon Laplace transform, 145	275–277
National Debt Enquiry (NDE) 40, 42	conditional likelihood, 280–282
National Debt Enquiry (NDE), 40–42 Nawalkha, S. K., 253, 256	first candidate specification, 260–262
Nelson, Charles R., 172, 173, 211, 255	Gaussian models, 282
net asset value (NAV), 132	identification, 266–269
New Keynesian economics, 189, 334	lessons learned, 282–283
Northern Rock, 130	negative rates, 280
Normern Rock, 190	negative yield curves, 277–279
Ohanian, L. E., 391, 393, 405, 408	risk premia in affine models, 269–275 unconditional likelihood, 283
open market operations, 1, 40, 44, 81, 308	unit root solutions, 279–280
Operation Twist, 48, 91, 92, 114	solution, 283–287
Orszag, P., 505	out-of-sample forecasts, 285–287
	Praet, Peter, 36
Paesani, P., 458, 485, 506	present discounted value (PDV) of
Pan, J., 460	liabilities, 37
Pastor, L., 331	principal components analysis, 211–213
pension funds, 36, 42	UK yield curve, 177
managing corporate bond portfolio, 122	probabilities of default (PDs), 142
Pericoli, M., 418, 430	probabilities of default (125), 112
Phil, H., 59	quadratic term structures
Piazzesi, M., 221, 223, 225, 253, 268, 275,	Gaussian VaR factors and, 156–157
288, 395, 396, 417, 457, 459, 485	quantitative easing (QE), 2, 47
policy rules: estimating policy rule from	United Kingdom, 180-189
money market rates when target	United States of America, 48, 90,
rate changes are lumpy, 216–219,	100–105, 114
226–228, 245	counterproductivity of QE and
challenges ahead, 244–245	Operation Twist, 106–110
data, 225	
effective spread, 228, 229	Radcliffe Report, 42–44
estimation, 225–228	Ramaswamy, Srichander, 52



rational expectations, 272, 273	inflation compensation and inflation risk
Rebonato, R., 253, 256	premia in euro area term structure
recovery of market value assumption, 148	of interest rates, 361–363, 383
regulation, 121, 126	data and estimation methods,
increased regulatory demands to hold	366–370 inflation compensation and inflation
government bonds, 35–39	risk premia, 379–383
Reinhart, C., 56	measurement errors and liquidity
Remolona, E. M., 424	premium in euro area, 373–379
Renne, JP., 143, 148, 160, 245	model setup, 364–366
repo and federal funds market in US, 293–296, 323–324	model specification, 384-388
background, 296–302	robustness check, 381-383
federal funds market, 299–301	term structure of inflation risk premia,
implementation of monetary policy,	363–370
301–302	term premia, 142
repo market, 296–298	RMBS master trusts, 130 Rogoff, K., 56
empirical framework, 303–310	Roll, R., 377
preliminary statistical analysis, 302–303	Ross, S. A., 256, 260
results of study	Rudebusch, G. D., 175, 253, 331
early crisis (August 2007 - December	0.1 0. 450 405
2008), 315–319	Salotti, S., 458, 485
extended period (December 2008 -	Sarno, L., 100, 339 saving glut thesis, 28, 30–32
June 2010), 319–323	Scheinkman, J. A., 259, 431
normal times (2002–2007), 310–315	Schuknecht, L., 457, 458
repurchase agreements, 296	Schwartz, A. J., 95
Risa, S., 415	Schwarz, K., 377
risk, 133	Scott, L., 260, 262
arbitrage and, 39	shortage of safe assets thesis, 32
premia, see risk premia	Siegel, Andrew F., 172, 173, 203, 211, 255
reputational risks in tail events, 128–133	Singleton, K. J., 148, 244, 253, 257, 260,
risk-neutral modelling	262, 268, 271–273, 275, 460 Smets, F., 56
assumptions, 146 autoregressive gamma latent factors,	solvency problems, 83
153–155	sovereign risk, 143
computation of defaultable bond	Spain, 67
prices, 147–148	credit risk premia in sovereign yields,
Gaussian VaR factors, 155–159	160–163
internal-consistency conditions, 149	sovereign yield spreads in Gaussian
non-zero recovery rate, 148–149	macro-finance term structure model
P-dynamics, 149–151	environment, 143, 462–466, 470,
Q-dynamics, 149–151	477, 478, 480, 481, 485, 486
sdf, 149–153	Steeley, J. M., 172, 175, 178 sterilized lending, 94–96
short rate, 149–151	stochastic discount factor (sdf), 142,
sovereign risk, 143	149–151
tail risks with counterparty risk	specification, 151-153
correlation, 122–127	stress tests, 127, 133, 134, 136
risk premia, 2, 142, 391	structured investment vehicles (SIVs), 128,
affine models, 269–275	129
credit risk premia, 142	substitution
in Italian and Spanish sovereign	high government debt and asset
yields, 160–163	substitutability across maturities,
expected inflation and inflation risk	32–35, 51 Summers, Lawrence H., 52



More information

surprises in euro area and US term	data, 462–466, 489
structures, 412–415, 446–447	estimation strategy, 466–469
data, 418–424	extending the sample, 479–481
effect of surprises on interest rates, 424–427	factor loadings along spread curve, 470
effects of surprises on term structure, 437–441	factors driving the spreads, 470 identification hypothesis, 490–492
estimation problem, 427–429	impulse responses, 472–478
expected inflation and inflation risk	model, 459–462
premia during the crisis, 436–437	
literature, 415–418	parameter estimates, 469–470, 493 Proposition, 487–489
macroeconomic and monetary surprises,	- · · · · · · · · · · · · · · · · · · ·
419–424, 438–441, 450–451	results, 469–478
model, 427–430	Riccati difference equations, 486
nominal and real affine term structure	robustness, 484–485
models, 415–417	term structure model for defaultable
nominal and real zero-coupon rates,	bonds, 460–462 term structure model for
418–419	non-defaultable bonds, 459
nominal term structure, 449–450	inflation compensation and inflation risk
number of factors and robustness	premia in euro area term structure
checks, 444–446	of interest rates, 361–363, 383
real term structure, 447–449	data and estimation methods,
results of model, 430–437	366–370
role of monetary aggregates, 423–424	inflation compensation and inflation
specification of the model, 451–452 surprises and term structure models,	risk premia, 379–383
417–418	measurement errors and liquidity
surprises-augmented model, 429–430	premium in euro area, 373–379
Svensson, L. E. O., 174, 330	model setup, 364–366
Swanson, E., 225	model specification, 384–388
swap rates, 381	robustness check, 381–383
	term structure of inflation risk premia,
tail events	363–370
reputational risks in, 128–133	pricing kernel, 224–225
tail risks with counterparty risk correlation, 122–127	state variables, 223–224
Tang, K., 288	surprises in euro area and US term
target rate models, 221–223	structures, 412–415, 446–447
Taylor, J. B., 219, 329	data, 418–424
Taylor rule, 326–329	effect of surprises on interest rates,
background and related literature,	424–427
329–331	effects of surprises on term structure,
cross-sectional Taylor rules, 339-342	437–441
data, 331–332	estimation problem, 427–429
identification of Taylor rules with	expected inflation and inflation risk
forecast data, 332–335	premia during the crisis, 436–437 literature, 415–418
individual Taylor rules, 342–346	macroeconomic and monetary
time-invariant consensus Taylor rules,	surprises, 419–424, 438–441,
335–339	450–451
term premia, 142 term structure models, 223–225, 232–239	model, 427–430
European sovereign yield spreads in	nominal and real affine term structure
Gaussian macro-finance term	models, 415–417
structure model environment,	nominal and real zero-coupon rates,
457–459, 485–486	418–419
bootstrap procedure, 492	nominal term structure, 449–450



More information

544 Index

number of factors and robustness economic growth and development, checks, 444-446 108, 113, 116, 239-242 real term structure, 447-449 government debt management, 45-47 results of model, 430-437 housing market, 111, 125, 127 role of monetary aggregates, 423-424 inflation, 107 specification of the model, 451-452 intelligible factor models and, 204, 213 surprises and term structure models, interest rates, 20, 27, 60, 93, 114, 116, 417-418 506, 508, 518, 520, 523, 525 surprises-augmented model, 429-430 funds rate target and forward terrorism, 96 guidance, 98-100 Thornton, D. L., 93, 100, 106 monetary policy, 26-28, 301-302 time inconsistency problems, 136 Taylor rule and, 326-329 Tirole, Jean, 42 Operation Twist, 48, 91, 92, 106-110, Tobin, James, 44, 48 114 Trabandt, M., 56 quantitative easing (QE), 48, 90, Tristani, O., 417, 445 100-105, 114 counterproductivity of QE and Operation Twist, 106-110 uncertainty repo and federal funds market, 293-296, interest rates and, 35, 39 323-324 policy uncertainty, 346-356 background, 296-302 portfolio choice under, 45 empirical preliminaries and Taylor rule and, 326–329 framework, 302-310 background and related literature, results of study, 310-323 329-331 response to financial crisis, 90-91, cross-sectional Taylor rules, 339-342 115-116 data, 331-332 conventional versus unconventional identification of Taylor rules with monetary policy, 91-93 forecast data, 332-335 counterproductivity of QE and individual Taylor rules, 342-346 Operation Twist, 106–110 time-invariant consensus Taylor rules, funds rate target and forward 335-339 guidance, 98-100 unemployment, 108, 113, 116 how Fed should have responded, unit root solutions, 279-280 110-115 United Kingdom post-Lehman monetary policy, dimensionality of yield curve on 96 - 110government bonds, 169-177 pre-Lehman monetary policy, 93-96 data and results, 177-192 quantitative easing, 100-105 dimensions of cross section of yields sterilized lending, 94-96 before and after 2008, 178-180 sub prime market, 1 dimensions of the evolution of the surprises in euro area and US term yield curve, 189-192 structures, 412-415, 446-447 estimating term structure, 171-176 data, 418-424 principal components analysis, 177 stability of yield curve dimensions effect of surprises on interest rates, before 2008, 180 424-427 effects of surprises on term structure, yield curve dimensions and effects of 437-441 quantitative easing, 180-189 intelligible factor models and, 204, 213 estimation problem, 427-429 interest rates, 21, 60 expected inflation and inflation risk Keynes and the National Debt premia during the crisis, 436-437 Enquiry, 40-42 literature, 415–418 Radcliffe Report, 42-44 macroeconomic and monetary quantitative easing (QE), 180-189 surprises, 419-424, 438-441, United States of America 450-451 debt problems, 25, 520, 523 model, 427-430



More information

Index 545

nominal and real affine term structure models, 415-417 nominal and real zero-coupon rates, 418-419 nominal term structure, 449-450 number of factors and robustness checks, 444-446 real term structure, 447-449 results of model, 430-437 role of monetary aggregates, 423-424 specification of the model, 451–452 surprises and term structure models, 417-418 surprises-augmented model, 429-430 unemployment, 108, 113, 116 unpleasant monetary arithmetic, 58 value-at-risk (VaR) measures, 143 Gaussian VaR factors affine term structures and, 155-156 quadratic term structures and, 156-157

switching Gaussian VaR factors,

157-159

Vasicek, O., 256 vector auto-regression (VAR), 256, 273 Verdelhan, A., 143 Veronesi, P., 331

Warnock, F., 28
Warnock, V., 28
wartime finance, 41
Watson, Mark, 21, 22, 52
Webber, N., 253, 254
Werner, T., 416, 445
Wieland, V., 333
Williams, J. C., 333
Wolswijk, G., 457, 458
Wood, Geoffrey E., 21
Woodford, M., 91, 99, 189
Wright, J. H., 103, 391, 404, 409
Wu, H., 416, 445
Wu, J. C., 253, 268, 271, 275

Walker, T. B., 59, 60

zero lower bound (ZLB) constraint, 39 Zhu, H., 253, 268, 271–273, 275