

IRS

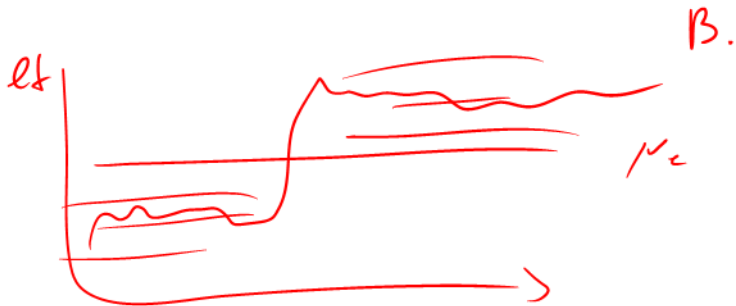
$$M + M_{3Y} = \sum_{i=3}^{T=5} DF(L_i - K) \times PD_i$$

\uparrow
 $2(3, 3+i)$



LIBOR \Rightarrow risk-free + credit risk + liquidity risk


LIBOR-OIS
spread



Coil degradation \rightarrow Fractional
Coil degradation
?

A.

A hand-drawn graph with the vertical axis labeled i and the horizontal axis labeled t . The curve is a noisy signal fluctuating around a horizontal line.

