CQF 2009
Module 4.3
Live Lecture: April 6, 2009
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Calibration and Data Analysis

In this lecture:

- The theoretical yield curve and the market yield curve, should they be the same?
- How calibration works, the pros and cons
- How to analyze short-term interest rates to determine the best model
- How to analyze the slope of the yield curve to get information about the market price of interest rate risk

By the end of this lecture, you will:

- Know the meaning of 'calibration'
- Appreciate the pros and cons of calibration
- Be able to analyze data to find a good model

Summary

- Spot interest rate models are usually calibrated to match market data, in particular the forward curve
- This calibration is in practice always inconsistent
- There are simple methods for examining interest rate data to find good models