

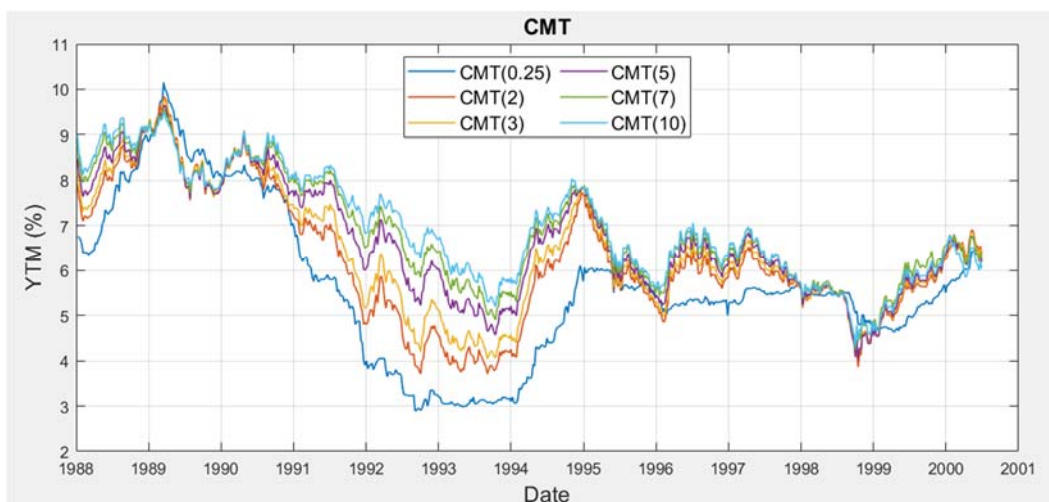
MFE 408 Fixed Income Markets

Homework 5

Group #9 of Cohort #2

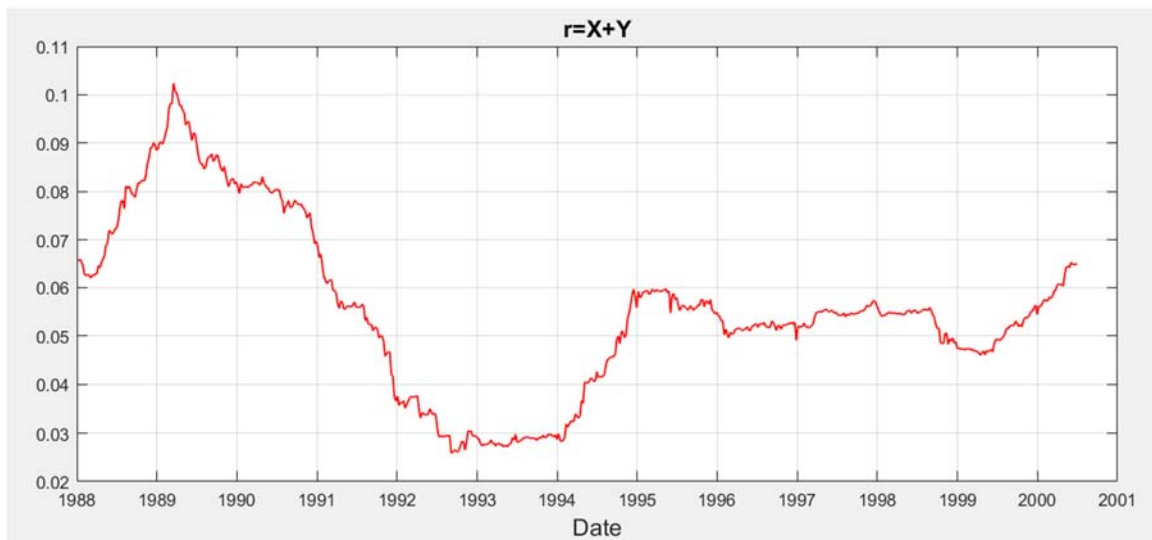
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The file “Homework_5.xlsx” has 10 columns. The first three are the date, ignore the fourth, columns 5 through 10 are CMT(.25), CMT(2), CMT(3), CMT(5), CMT(7), and CMT(10).



Assume that the CMT(.25) and CMT(10) rates are fit exactly by the 2 factor Vasicek model discussed in class. Using all 650 weeks of data, fit the 2-factor model to the data by solving for the parameters α_x , β_x , σ_x , β_y and σ_y (set $\alpha_y = 0$).

Graph the values of X and Y and check how well their sample moments (means, standard deviations) match those implied by the (risk neutral) parameter estimates.



Analyze the time series properties of deviations between the CMT rates and the fitted model.

