QUESTION 2. Yield Curve Modeling

a. Pick government securities from a country. The country selected should be one of the countries from your group so that you can fit a Nelson-Siegel model.

b. Be sure to pick maturities ranging from short-term to long-term (e.g. 6 month maturity to 20 or 30 year maturities).

c. Fit a Nelson-Siegel model.

d. Fit a Cubic-Spline model.

e. Compare the models in terms of 1) fit and 2) interpretation.

f. Be sure to specify at the levels of model parameters (ex. Alpha1).

g. In Module 2 Lesson 4 ('Smoothing Data'), we said smoothing data can be unethical. If Nelson-Siegel is smoothing the yield curve, is this considered unethical? Why or why not?