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## Handbook of Monetary Economics

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### Chapter 13 The term structure of interest rates

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#### Publisher Summary

The term structure of interest rates at any time is the function relating interest rate to term. The study of the term structure inquires what market forces are responsible for the varying shapes of the term structure. In its purest form, this study considers only bonds for which default risk can be disregarded, convertibility provisions, call provisions, floating rate provisions, or other special features. Thus, the study of the term structure is regarded as the study of the market price of time over various intervals. The concept of duration is used throughout to simplify mathematical expressions. Continuous compounding is used where possible to avoid arbitrary distinctions based on compounding assumptions. The relations described in this chapter are applied to conventionally defined interest rates or exactly to the continuously compounded McCulloch data. The chapter discusses theories of the term structure. In making plans using the term structure, it is helpful to realize that the term structure on any given date has in it implicit future interest rates called "forward rates."

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