

The term structure spread and future changes in long and short rates in the G7 countries: Is there a puzzle.

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Abstract

According to the expectations hypothesis, when the spread between long and short rates widens, next quarter's long rate should rise. In the United States, however, long rates decline instead of rising. This anomaly is also present in Canada, the UK, Germany and Japan (four of the additional six G7 countries). Nevertheless, in contrast to the US, where long rates appear to overreact to expected future developments, the anomalous short-run movement of long rates in these other G7 countries is caused by an additive white noise error on long rates that does not materially affect the information in their term structure.



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## Keywords

Term structure; G7 countries; Expectations hypothesis; Overreaction

## JEL classification

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