

# A Macro-Finance Model of the Term Structure, Monetary Policy and the Economy

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## Abstract

This article develops and estimates a macro-finance model that combines a canonical affine no-arbitrage finance specification of the term structure of interest rates with standard macroeconomic aggregate relationships for output and inflation. Based on this combination of yield curve and macroeconomic structure and data, we obtain several interesting results: (1) the latent term structure factors from no-arbitrage finance models appear to have important macroeconomic and monetary policy underpinnings, (2) there is no evidence of a slow partial adjustment of the policy interest rate by the central bank, and (3) both forward-looking and backward-looking elements play roles in macroeconomic dynamics.

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