JOURNAL ARTICLE

Requiem for a Market: An Analysis of the Rise and Fall of a Financial Futures Contract Get access >

Elizabeth Tashjian Johnston, John J. McConnell

The Review of Financial Studies, Volume 2, Issue 1, January 1989, Pages 1–23, https://doi.org/10.1093/rfs/2.1.1

Published: 16 March 2015

Abstract

Futures contracts often include a variety of delivery options that allow participants flexibility in satisfying the contract. These options have the potential to broaden the appeal of the contact. However, if these options are valuable, they may reduce the hedging effectiveness of the contract. This article analyzes the GNMA CDR futures contract that appears to have failed because of flaws in the contract's design. For the first 6 years following its introduction, the contract attracted significant and increasing volume, but, subsequently, the volume declined to almost zero. Over the years during which the volume experienced its most dramatic decline, the Treasury-bond futures contract provided a better hedge for current coupon GNMA securities than did the GNMA CDR futures contract. And, over this same period, the value of the quality option embedded in the contract often exceeded 5 percent of the futures price and reached a level of 19 percent at one point. We interpret the evidence to indicate that the contract failed because the delivery options reduced the hedging effectiveness of the contract for current coupon mortgage securities.

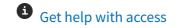
© 1989 The Review of Financial Studies

Issue Section: Article

Collection: SFS Journals

You do not currently have access to this article.

Sign in



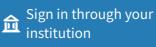
Personal account

- Sign in with email/username & password
- Get email alerts
- Save searches
- Purchase content
- Activate your purchase/trial code
- Add your ORCID iD



Register

Institutional access



Sign in through your institution

Sign in with a library card

Sign in with username/password

Recommend to your librarian

Institutional account management

Sign in as administrator

Purchase

Subscription prices and ordering for this journal

Purchasing options for books and journals across Oxford Academic

Short-term Access

To purchase short-term access, please sign in to your personal account above.

Don't already have a personal account? Register

Requiem for a Market: An Analysis of the Rise and Fall of a Financial Futures Contract - 24 Hours access

EUR €53.00 GBP £44.00 USD \$58.00

Rental



This article is also available for rental through DeepDyve.