

Y2K Options and the Liquidity Premium in Treasury Markets

[Get access >](#)

The Review of Financial Studies, Volume 22, Issue 3, March 2009, Pages 1021–1056, <https://doi.org/10.1093/rfs/hhn005>

Published: 28 February 2008

Abstract

Financial institutions around the world expected the millennium date change (Y2K) to cause an *aggregate* liquidity shortage. Responding to the concern, the Federal Reserve Bank of New York auctioned Y2K options to primary dealers. The options gave the dealers the right to borrow from the Fed at a predetermined interest rate. Using the implied volatilities of Y2K options and the on/off-the-run spread, we demonstrate that the Fed's action eased the fears of bond dealers, contributing to a drop in the liquidity premium of Treasury securities. Our analysis shows the link between the microstructure of government debt markets and the central bank's provision of liquidity. We argue that Y2K options and their effects on liquidity premium broadly conform to the economic theory on public provision of private liquidity.

© Oxford University Press 2008

JEL: [G1 - General Financial Markets](#), [G12 - Asset Pricing; Trading volume; Bond Interest Rates](#), [G18 - Government Policy and Regulation](#)

Issue Section: [Article](#)

You do not currently have access to this article.


Sign in

 [Get help with access](#)

Personal account

- Sign in with email/username & password

Institutional access

 Sign in through your institution

- Get email alerts
- Save searches
- Purchase content
- Activate your purchase/trial code
- Add your ORCID iD

Sign in >

Register

[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](#)

Y2K Options and the Liquidity Premium in Treasury Markets - 24 Hours access

EUR €53.00

GBP £44.00

USD \$58.00

Rental



This article is also available for rental through DeepDyve.