

Normal backwardation is normal

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First published: 21 September 2000

[https://doi.org/10.1002/1096-9934\(200010\)20:9<803::AID-FUT1>3.0.CO;2-Q](https://doi.org/10.1002/1096-9934(200010)20:9<803::AID-FUT1>3.0.CO;2-Q)



Abstract

Traditionally, constant expected return asset pricing models are used to assess the presence of a futures risk premium and the validity of the normal backwardation theory. In the light of recent evidence regarding the presence of time variation in expected futures returns, such an approach may lead to incorrect inferences on the applicability of the Keynesian hypothesis. This article therefore allows for variation through time in expected futures returns and offers some strong evidence in favor of the normal backwardation and contango theories. © 2000 John Wiley & Sons, Inc. *Jrl Fut Mark* 20:803–821, 2000

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