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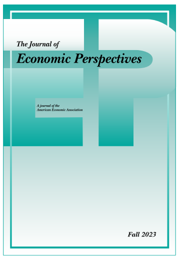
< Some Lessons from the Yield Curve



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Abstract

This paper reviews the literature on the relation between short- and long-term interest rates. It summarizes the mixed evidence on the expectation hypothesis of the term structure: when long rates are high relative to short rates, short rates tend to rise as implied by the expectations hypothesis, but long rates tend to fall, which is contrary to the expectations hypothesis. The paper discusses the response of the U.S. bond market to shifts in monetary policy in the spring of 1994 and reviews the debate over the optimal maturity structure of the U.S. government debt.

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