



American Economic Review

ISSN 0002-8282 (Print) | ISSN 1944-7981 (Online)

≡ Menu

Interest Rates under Falling Stars

Michael D. Bauer

Glenn D. Rudebusch

AMERICAN ECONOMIC REVIEW

VOL. 110, NO. 5, MAY 2020

(pp. 1316–54)

Download Full Text PDF

Article Information

Abstract

Macro-finance theory implies that trend inflation and the equilibrium real interest rate are fundamental determinants of the yield curve. However, empirical models of the term structure of interest rates generally assume that these fundamentals are constant. We show that accounting for time variation in these underlying long-run trends is crucial for understanding the dynamics of Treasury yields and predicting excess bond returns. We introduce a new arbitrage-free model that captures the key role that long-run trends play in determining interest rates. The model also provides

This website uses cookies.

By clicking the "Accept" button or continuing to browse our site, you agree to first-party and session-only cookies being stored on your device to enhance site navigation and analyze site performance and traffic. For more information on our use of cookies, please see our [Privacy Policy](#).

Accept

Bauer, Michael D., and Glenn D. Rudebusch. 2020. "Interest Rates under Falling Stars." *American Economic Review* 110 (5): 1316–54.

DOI: 10.1257/aer.20171822

Choose Format:



Additional Materials

[Replication Package](#)

[Supplemental Appendix](#)

[Author Disclosure Statement\(s\)](#)

JEL Classification

E31 Price Level; Inflation; Deflation

E43 Interest Rates: Determination, Term Structure, and Effects

E47 Money and Interest Rates: Forecasting and Simulation: Models and Applications

[Terms of Use](#)

[Privacy Policy](#)

Copyright 2026 American Economic Association. All rights reserved.

This website uses cookies.

By clicking the "Accept" button or continuing to browse our site, you agree to first-party and session-only cookies being stored on your device to enhance site navigation and analyze site performance and traffic. For more information on our use of cookies, please see our [Privacy Policy](#).

Accept