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The Flight-to-Liquidity Premium in U.S. Treasury Bond Prices

Francis A. Longstaff

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WORKING PAPER 9312

DOI 10.3386/w9312

ISSUE DATE November 2002

We examine whether there is a flight-to-liquidity premium in Treasury bond prices by comparing them with prices of bonds issued by Refcorp, a U.S. Government agency, which are guaranteed by the Treasury. We find a large liquidity premium in Treasury bonds, which can be more than fifteen percent of the value of some Treasury bonds. This liquidity premium is related to changes in consumer confidence, the amount of Treasury debt available to investors, and flows into equity and money market mutual funds. This suggests that the popularity of Treasury bonds directly affects their value.

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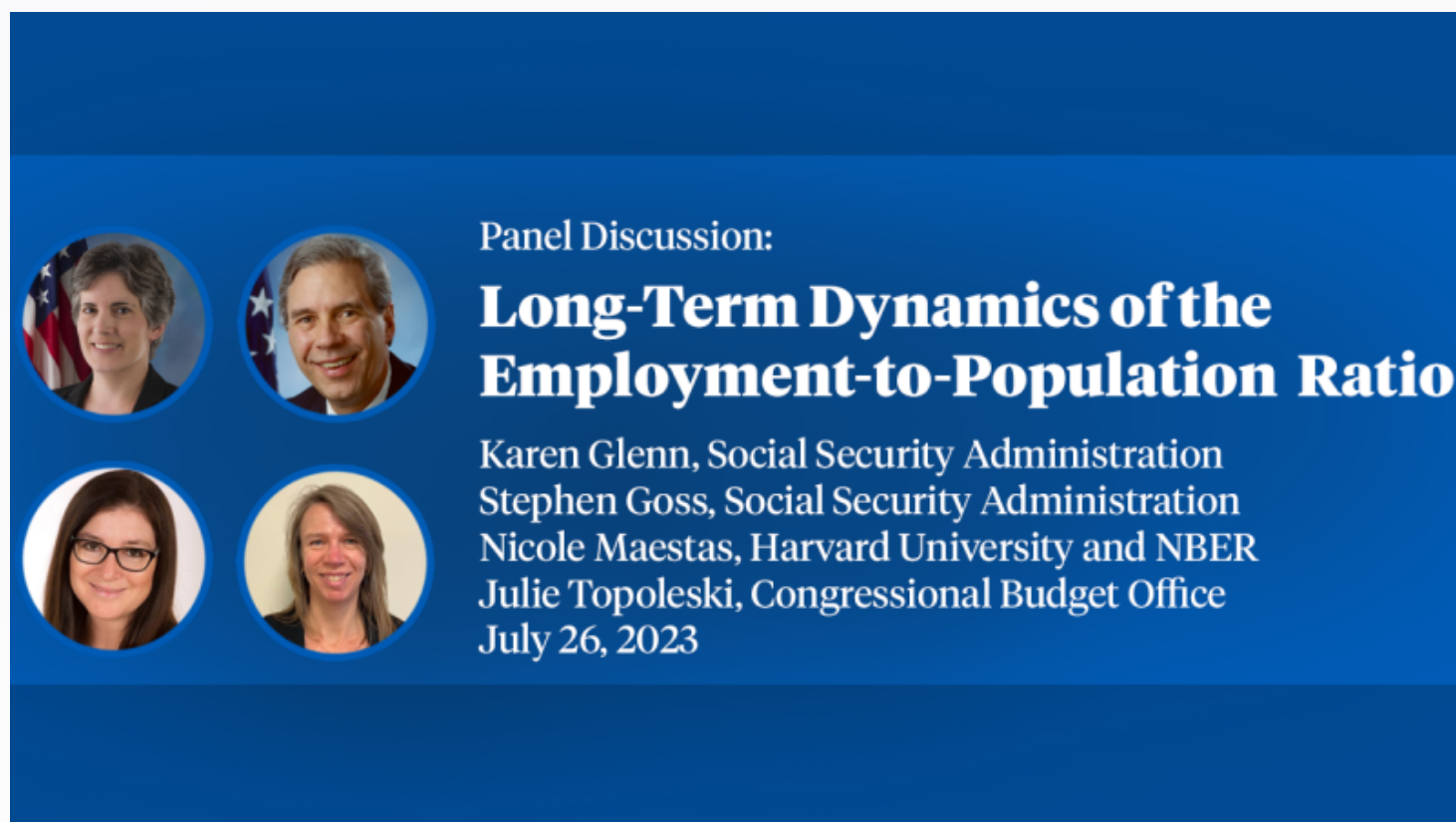
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Supported by the Alfred P. Sloan Foundation, the National Science Foundation, and the Lynde and Harry Bradley...

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Contact Us

1050 Massachusetts Avenue

Cambridge, MA 02138

617-868-3900

info@nber.org

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