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Quasi-maximum likelihood estimates of Kiwi short-term interest rate

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Abstract

This paper examines various short-term interest rate models in New Zealand. We estimate ten stochastic models of short-term interest rates using Quasi-maximum Likelihood Estimation. All models examined allow the conditional mean (drift) and conditional variance (diffusion) to be functions of the current short rate. We find no evidence of mean reversion but strong evidence of the need for the volatility of interest rate changes to be highly sensitive to the level of the Kiwi short rate. Specifically, we find the conditional volatility of the Ki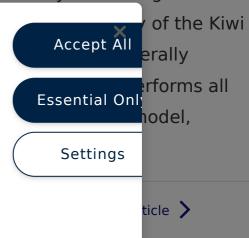wi short rate is monotonically increasing with a convex s... ...y of the Kiwi short rat... ...erally assume... ...erforms all rema... ...odel, wher...

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