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Tracking the Libor rate

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Pages 893-899 | Published online: 17 Jan 2011

Cite this article <https://doi.org/10.1080/13504851.2010.515197>

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Abstract

With an eye to providing a methodology for tracking the dynamic integrity of prices for important market indicators, in this article we use Benford second digit (SD) reference distribution to track the daily London Interbank Offered Rate (Libor) over the period

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We thank the editor Mark Taylor and two anonymous referees as well as comments by Albert Metz, Leo Simon, Gordon Rausser, Laura Schechter, John Cochrane, the British Bankers Association, assistance in data collection by Susan Press and support from the Giannini Foundation of Agricultural Economics. The views expressed in this study belong solely to the authors and should not be attributed to LECG or its clients.

Notes

¹Among many who have used Benford's law to check the validity of purported scientific data in the social sciences, see Varian ([1972](#)), Giles ([2007](#)), Cho and Gaines ([2007](#)) and Judge and Schechter ([2009](#)). See Abrantes-Metz and Bajari ([2009](#)) to study how statistical methods have started to be used in antitrust and finance to detect a variety of conspiracies and manipulations.

²The FFE rate is the interest rate at which banks (and other depository institutions) lend balances through the Federal Reserve Bank to other depository institutions. Because this rate is usually applied to overnight loans, it represents a short-term rate of borrowing between banks, making it a suitable benchmark for our study.

³, where e_i is the observed frequency in each bin in the empirical data, b_i the frequency expected by Benford. This statistic has 9 degrees of freedom with the 10%, 5% and 1% critical significance values of 14.98, 16.92 and 21.97, respectively.

⁴A short-term debt obligation backed by the US government with a maturity of less than 1 year. Treasury bills (with a maturity of less than 1 year) are issued in denominations of \$5 million and \$10 million and are sold at a discount to face value. Treasury bills with a maturity of 4 weeks, 13 weeks, 26 weeks, or 52 weeks are sold in contracts with a par value of \$100 million.

⁵We also used the 3-month LIBOR rate as a benchmark rate. The 3-month LIBOR rate is the rate on 3-month LIBOR contracts (see [Bas \(2010\)](#)) using the same methodology as in [Bas \(2010\)](#). The convergence of the 3-month LIBOR rate to the 3-month Treasury bill rate is discussed in [Bas \(2010\)](#).

⁶On 17 April 2008, the BBA announced that it had agreed to a series of articles (see e.g. Abrantes-Metz et al., [2008](#)).

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