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Abstract

This paper extends the traditional duration measure for continuous-time Heath–Jarrow–Morton models. The result is a general Heath–Jarrow–Morton duration measure based on a zero-coupon yield for an arbitrary maturity as state variable. A convexity measure compatible to this generalized duration is derived. In addition, closed-form solutions are presented for two popular example models.

Keywords: Risk management ▪ Term structure of interest rates ▪ Heath–Jarrow–Morton model ▪ Stochastic duration ▪ Stochastic convexity