What does the Eurodollar futures market tell us about the effects of credit shocks and monetary policy at the lower bound?

Abstract

This paper develops a shadow rate Gaussian term structure model of the Eurodollar futures and Treasury bond markets to study the effects of credit shocks and monetary policy at the lower bound. This research was initially motivated by the observation that the shadow rate model gives a simple closed-form solution for a futures price, while, in contrast, tractable formulae for bond yields and forward rates are only available as approximations. In addition, the use of data for Eurodollar and Treasury markets allows me to study the links between these markets and distinguish between credit and policy shocks, yielding new insights into the effect of the recent financial crisis.