

ESTIMATION OF SHORT-RATE MODELS WITH DAILY OBSERVATIONS

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ABSTRACT. This paper uses both simulated maximum likelihood and efficient method of moments to estimate several one and two-factor models of the term-structure of interest rate, based on daily recorded observations of Canadian three-month Treasury-bill rate. At least for the data under study, two-factor models outperform one-factor models, and the two-factor stochastic volatility model with a constant drift term and most unrestricted specification of the volatility term is favored by the specification tests.