

Analysis of Changes in Interconnectedness between Korean and US Term Structures before and after the Global Financial Crisis

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Since changes in the term structure arising from overseas factors can distort the effects of monetary policy, there is a need to judge accurately the influence of overseas factors on the term structure and consider this in conducting monetary policy. This paper carries out an empirical analysis of the influence on the Korean term structure of the US term structure, one of the major overseas factors in two periods : before and after the global financial crisis.

The analysis shows that shocks to the three factors (level, slope, and curvature) that explain the US term structure have a statistically significant influence on the same three factors that explain the Korean term structure. The form the influence takes, however, varies depending upon the period. Before the global financial crisis, shocks to the US slope and curvature factors were significant, whereas after the crisis, the shocks to the US level and curvature factors were found to be significant for the Korean term structure.

Variance decomposition results show that a US term structure factor shock explained only 6 to 8% of change in the Korean term structure before the crisis, but then it came to explain 30 to 43% of such change after the crisis, which implies that the importance of the US factors became greater after the crisis.

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1. Purpose of Study

2. Zero Coupon Treasury Bond Yields

3. Models

4. Empirical Analysis

5. Conclusion