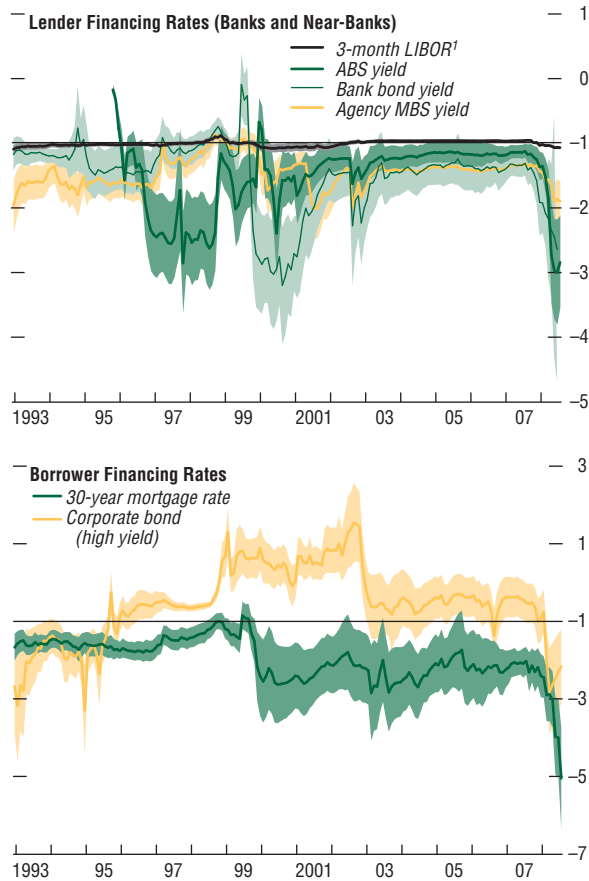


Figure 2.10. Dynamic Vector Error Correction Mechanism (VECM) (2,3) Estimation of the U.S. Fed Funds Rate and Market Rates – United States
(Coefficient value)



Source: IMF staff estimates.

Note: Sample time period: 1/31/1985–6/30/2008. VECM (2,3) eight-year rolling window estimation results of the cointegration coefficients (with 90 percent confidence band) denoting the long-term equilibrium relation between level changes in the effective U.S. Federal Funds rate and selected market rates of lenders and borrowers (with seasonal control). A coefficient value of “-1” indicates a stable long-term equilibrium relation of the policy rate and the selected market rate, whereas deviations from this value indicate a breakdown in the relation. The dates in the charts refer to the end dates of the rolling window. ABS = asset-backed security; MBS = mortgage-backed security.

¹The error bands for the 3-month LIBOR rate are very tight (between 1.6 percent and 7.6 percent of the coefficient value) and have thus been suppressed from the figure for clarity.