

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: The Behavior of Interest Rates: A Progress Report

Volume Author/Editor: Joseph W. Conard

Volume Publisher: UMI

Volume ISBN: 0-87014-081-7

Volume URL: <http://www.nber.org/books/cona66-1>

Publication Date: 1966

Chapter Title: Front matter to "The Behavior of Interest Rates: A Progress Report"

Chapter Author: Joseph W. Conard

Chapter URL: <http://www.nber.org/chapters/c5772>

Chapter pages in book: (p. -13 - 0)

The Behavior of  
INTEREST RATES

A PROGRESS REPORT

NATIONAL BUREAU OF ECONOMIC RESEARCH

NUMBER 81, GENERAL SERIES

LC

# The Behavior of INTEREST RATES

A PROGRESS REPORT

*by Joseph W. Conard*



NATIONAL BUREAU OF ECONOMIC RESEARCH  
NEW YORK 1966

*Distributed by* COLUMBIA UNIVERSITY PRESS  
NEW YORK AND LONDON

LC 282 30

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Printed in the United States of America

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*This report is one of a series emerging from an investigation of interest rates made possible by a grant to the National Bureau from the Life Insurance Association of America. The Association is not, however, responsible for any of the statements made or views expressed.*

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\* W. A. Clarke was a member of the Committee until his death on February 8, 1965.

# Contents

Preface	xiii
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## *PART I*

1. <i>Toward an Understanding of Interest Rates</i>	3
2. <i>Scope of the First Interest Rate Project</i>	9
The Mortgage Market	9
Direct Placements	12
Seasonal Behavior	13
Cyclical Behavior	14
The Term Structure of Rates	14
The Spread Between New and Seasoned Yields on Corporates	15

## *PART II*

3. <i>The Mortgage Market</i>	19
Yield-Determining Characteristics	19
Other Observations	32
4. <i>Direct Placements</i>	33
Scope and Procedure	33
Findings	34
5. <i>Seasonal Movements of Interest Rates</i>	40
Treasury Bills, 1951-60	41
Other Short-Term Interest Rates, 1951-60	42
Long-Term Securities, 1951-60	46
Seasonal Movements Since 1960	48
Summary and Implications	53
6. <i>Cyclical Movements</i>	56
Description of Cyclical Movements	56

Comments on Causation	62
Kessel's Findings on Cyclical Behavior of Interest Rates	68
7. <i>The Term Structure of Interest Rates</i>	71
Background	71
Procedures and Findings	75
Implications	90
Further Research	96
Appendix to Chapter 7	100
8. <i>The Yield Spread Between New and Seasoned Corporate Securities</i>	106
Procedure and Major Regressions	106
Direct Implication of Regressions	110
Hypotheses for Explanation of Yield Spreads	113
Reliability of Findings	118
The Influence of Coupon and Call on Bond Yields	120
<i>PART III</i>	
9. <i>Further Studies in Progress</i>	133
Extensions of Current Research	133
The Effects of Interest Rates	135
Other Studies	137
Scope of Interest Rate Project	137
<i>Index</i>	139

# Tables

1. Long-Term Debt, Selected Items, 1948, 1962	10
2. Characteristics of Conventional First Mortgage Loans, Originated by Major Lender Groups, for Purchase of Previously Occupied Properties, January–March 1963	23
3. Effective Interest Rate on Conventional First Mortgages by Loan-to-Value Ratio, January–March 1963	26
4. Influence of Six Variables on Yields of Direct Placements, Industrials	34
5. Characteristics of Seasonal Patterns in Selected Interest Rates, 1951–60	44
6. Average Amplitude Per Month of Specific Cycles in Interest Rates	60
7. Ratio of Interest Rate Amplitudes in Specific Cycles of 1950's to Amplitudes in Matching Cycles of 1920's	61
8. Specific Cycle Amplitudes in Interest Rates Adjusted for Severity of Corresponding Business Cycles, Change from 1919–29 to 1953–61	63
9. Cyclical Changes in Yields of Government Securities, October 1949–February 1961	69
10. Retest of Meiselman Hypothesis, Using Government Securities, June 1951 to March 1963	77
11. Regression of $RP + E$ on $\Delta R$	101
12. Regression of $\Delta R$ on $R$	101
13. Regression of $RP + E$ on $R$	103
14. Regression of $RP + E$ on $R$ and $\Delta R$	105
15. Importance of Selected Variables in Explaining Yield Spreads	112

# Charts

1. Hypothetical Demand and Supply Curves for Loanable Funds	5
2. Annual Changes in Debt Outstanding, 1954-63	11
3. New Long-Term Security Issues, 1950-62	13
4. Yields on Direct Placements (Industrials), on FHA Mortgages, and on Long-Term Governments, Quarterly, 1951-61	36
5. Yields on Industrials: Direct Placements and New Public Offerings (Moody's A and Baa), Quarterly, 1951-61	37
6. Yields on Class I Direct Placements and on Class I Public Offerings, Industrials, Quarterly, 1951-61	38
7. Weekly Seasonal Adjustment Factors, 3-Month Treasury Bills, 1950, 1955, 1960	43
8. Seasonal Adjustment Factors, Treasury Bills and Corporate Bonds, 1954-60	47
9. Seasonal Adjustment Factors and Ratios to Moving Averages, 3-Month Treasury Bills, 1957-64	49
10. Actual Yields and Seasonal Factors, 1957-64	51
11. Reference-Cycle Patterns of Commercial Paper Rate and Monetary Growth Rate, 1904-14, 1919-38, 1945-61 (Absolute Deviations from Cycle Averages)	65
12. Average Risk Premiums, Corporate Bonds, 1900-54 (Durand Data)	79
13. One-Year Rates, Forward One-Year Rates, and $RP + E$ , Corporate Bonds, 1900-62	82
14. Market Expectations of Future 91-Day Bill Rates, First Observations of Continuous Four-Week Periods, 1959-62	88
15. Holding Period Yields on Short- and Long-Term Governments, 1951-60	91
16. Hypothetical Components of Yield Curves, Expectations Hypothesis and Liquidity Preference Hypothesis Combined	93
17. $RP + E$ , $\Delta R$ , and $R$ , One-Year Government Rates, 1951-63	102
18. $RP + E$ , $\Delta R$ and $R$ , 28-Day Government Rate Adjusted for Bankers' Discount, 1949-61	104
19. Monthly Averages of Yields on Moody Aa Corporate Bonds, 1952-63	107
20. First-of-Month Yields, Yield Spreads, and Residuals on Homer Aa Public Utility Bonds, 1952-63	108
21. Spread of Yield from that on 2¾ to 2⅞ Per Cent Securities, 1956-64	121
22. Yield Spread as a Function of Coupon Rate and Level of Yields on Low-Coupon Issues (Hypothetical Cases)	124
23. Yield Spread Between High- and Low-Coupon Issues, 1957-61	126

## Preface

This brief review of the work done thus far on the National Bureau's interest rate project is presented now, even though it is too early to obtain more than a limited view of the findings of the study as a whole. We do this in the hope that many will find it useful to know what is going on here even in midstream, and because as we look ahead we see no time when there will not be, as now, a number of studies which will reveal much more if we "just wait a few more weeks" for publication. As will become clear, a large part of our effort has been invested in obtaining basic data from which findings are only beginning to emerge.

The space devoted to various topics in the following summary is no indication of the importance of the studies involved or of the prospective size of underlying studies upon completion. It reflects rather the extent to which studies have reached the point of providing substantive findings. Where data-gathering was minimal, progress toward conclusions was naturally most rapid.

One feels almost like a plagiarist claiming authorship of a report which is so largely the work of others as is this one. In some instances even the wording of this summary is borrowed from reports or correspondence of the scholars whose work it reviews. In any event it is obvious that the underlying research on which this summary rests is largely that of others. We have all worked together in plans and criticism, though the extent of collaboration varies widely from one project to another.

Since those who undertook the responsibility for specific research projects are named in the body of the report, I shall not further identify them here, but many others deserve mention as well. The project owes its existence to the generosity of the Life Insurance Association of America. But we owe a debt of gratitude for much beyond money to that group. James J. O'Leary, director of research for the Association, has given invaluable help in many ways. George T. Conklin, the chairman of its Investment Research Committee when the project was undertaken, gave essential advice at many points in its development.

Subsequent chairmen of that committee and others of its members have given helpful counsel in the several meetings we have had with them. As indicated later, both the mortgage market study and the study of direct placements would have been impossible without the generous cooperation of nearly thirty large insurance companies in providing data at the expense of considerable effort.

Throughout the interest rate project we have been aided by an Advisory Committee under the chairmanship of W. Braddock Hickman, Federal Reserve Bank of Cleveland. The members of this committee are identified on an earlier page. Many have given help well beyond the implications of committee membership, but Sidney Homer has aided us so profoundly and so continuously that special mention of his assistance is a necessary pleasure. Daniel Brill has also been especially helpful, not only by providing his own criticism of our earlier draft, but also by obtaining for us the comments of specialists on the research staff at the Board of Governors.

We are indebted, also, to William H. White of the International Monetary Fund, who read the preliminary draft with detailed care and made numerous useful suggestions.

As in every National Bureau project, we owe thanks to staff members who have read and criticized one part or another of the reports on which this summary is based, as well as the summary itself. Particular thanks go to Jacob Mincer for his valuable suggestions on statistical procedure and inferences, and to Geoffrey H. Moore for his careful reading and criticism of every document. We are grateful, also, to the many secretaries and research assistants who often bear the brunt of the labor in efforts of this kind. The manuscript was edited by James F. McRee, Jr., and the charts drawn by H. Irving Forman.

My own work in planning and evaluating the project was fully shared by William H. Brown, Jr., my colleague at Swarthmore College, whose office I have probably invaded an average of once a day for the full time of the project.

JOSEPH W. CONARD

NOTE: Joseph W. Conard died on April 5, 1965. He had virtually completed the present draft of this report some weeks before, when he left it in my care. Apart from a few minor changes, it is presented here in the form in which he finished it.

In preparing the report for publication I have had the assistance of Jack Guttentag, the late William H. Brown, Jr., Stanley Diller, Anna J. Schwartz, and other colleagues. We are indebted, also, to Victor B. Gerard, R. G. Davis, Albert J. Hettinger, R. A. Gordon, Boris Shishkin, and Murray Shields for their reading of the manuscript.

GEOFFREY H. MOORE