

Supply Factors and Excess Bond Returns in Zero-Lower Bound and Normal Environments: Evidence from Japan

Junko Koeda*

MARCH 2015

Abstract

We estimate a discrete-time Vayanos and Vila's (2009) preferred habitat model using Japanese government bond yield data. The estimated results indicate that bond excess returns become more sensitive to supply factors in the absence of a zero lower bound constraint unless arbitrageurs become willing to take more risk taking.

JEL Classification: C13, C32, E43, E44, E52

Keywords: Term structure model, Japanese government bonds, preferred habitat, supply factors