

# UNIVERSITY OF ROCHESTER

*William E. Simon Graduate School of Business Administration*

**FIN 533**  
Special Topics in Finance

**Professor G. William Schwert**  
Fall 2000

## **Home work Assignment #1 Due: October 11, 2000**

Read the Nelson and Schwert *American Economic Review* paper on short-term interest rates as predictors of inflation. The Eviews dataset F533HW1.WF1 contains monthly CPI inflation (NSA and SA) and interest rates for the period 1926:01-2000:08. Your assignment is to reproduce the major results in the Nelson and Schwert paper for their time period (1953:01-1971:07), and to see how their results change using other sample periods. Also, do you think that the seasonally adjusted data perform better or worse than the NSA data? **Why?**

How would you predict the real rate of interest using the Nelson-Schwert approach? Plot and discuss the time series behavior of the (ex ante) real rate over the 1926-2000 period.

You should write a short, concise report that includes a minimum of computer output (similar to what you see above). Show only what is necessary.

**Note:** You do not have to use Eviews. The same data are available in an Excel spreadsheet, F533HW1.XLS. You may use any computer program that you know how to use.