



# ARBITRAGE

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## Learning, Dispersion of Beliefs, and Risk Premiums in an Arbitrage-Free Term Structure Model

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*Stanford research paper*

In this paper, researchers explore the idea that knowing how much professionals disagree about how quickly the U.S. economy is emerging from a recession may produce actionable insight into the future performance of the bond market.

The authors also assert that the forecasting power of the information they analyzed is distinct from that of macroeconomic factors such as inflation and output growth, and thus the yield-relevant information they identify is distinct from information about the state of the business cycle. Indeed, they contend that after accommodating for learning, macro factors have relatively weak real-time predictive power.

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