



LISBON
SCHOOL OF
ECONOMICS &
MANAGEMENT
UNIVERSIDADE DE LISBOA

Case Studies in Financial Engineering

CASE 2

The Yield Curve and Growth Forecasts

**Darden School of Business, University of Virginia,
Case No. UV5689, August 23, 2018**

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1. How successful is the yield curve at predicting recessions?
2. Why should a yield curve inversion lead to a recession?
3. What matters most – the level of the term spread, the change of the term spread, or the level of short rates? Please take the different explanatory theories of the term structure of interest rates into consideration.
4. Present the yield curves for the USD and the EUR currently and one year before and compare your perspectives about the behaviour of short-term interest rates and economic activity in both dates and for both economies.
5. Present the price of a 3-month interest rate futures contract for both currencies, using the most recent data considered in the previous question.
6. Employ two different empirical methodologies to adjust the current EUR yield curve, identifying the respective pros and cons.