

TABLE 5
Means and Standard Deviations of Proxy Errors

Three proxies for the short rate are the extrapolated short rate from the LMNT procedure, the one month Treasury Bill rate and the three month Treasury Bill rate. The LMNT estimate controls for the possibility of observation errors present in bond prices whereas the latter two do not. Based on a simulated Cox-Ingersoll-Ross (1985) model for the term structure's evolution over a ten year time-horizon and mean zero observation errors with calibrated standard deviations, the mean and standard deviation of the proxy errors are provided: the proxy error at time t is computed via

$$proxy\ error(t) = proxy(t) - r(t)$$

where $proxy(t)$ and $r(t)$ are the values of the proxy of the short rate and the short rate from the Cox-Ingersoll-Ross model respectively.

Proxy	Proxy Error Mean	Proxy Error Standard Deviation
LMNT Based Estimate	0.000243	0.006120
One Month T-Bill	0.000465	0.002178
Three Month T-bill	0.000069	0.001320