

REGIME DEPENDENT INFORMATION CONTENTS OF MODEL-FREE VOLATILITY: EVIDENCE  
FROM THE EURODOLLAR OPTIONS MARKETS

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Abstract

We assess the information efficiency of the Eurodollar options markets and find that model-free volatility is more informative than model-dependent volatilities, especially during a market downturn. The results of a Markovswitching test show that the information content differs between regimes because model-free volatility contains information in out-of-the-money options, and this information becomes valuable as the market becomes turbulent. In addition, our analysis of model-free interest rate volatility can benefit both interest rate risk management and fixed-income asset valuation.

Keyword : Model-free volatility; Implied volatility; Information content; Eurodollar options markets