

Investor Sentiment and Interest Rate Volatility Smile: Evidence from
Eurodollar Options Markets

陳怡璇, 郭一棟

Finance

Management

cathy1107@chu.edu.tw

Abstract

We assess the information efficiency of the Eurodollar options markets and find that the information contents of model-free volatility and at-the-money volatility differ between regimes. The results of a Markov-switching test show that the model-free volatility is more informative than model-dependent volatilities, especially during a volatile regime. This is because model-free volatility contains information in out-of-the-money options and this information becomes valuable as the market becomes volatile, but at-the-money volatility is informative only during a calm period. It is found that implied volatility of stock index drives the regime switching for MF volatility of Eurodollar options.

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