

Figure 2 Non-Linearities in the Evolution of the Premium

The top panel displays the correlation between the estimated half-lives of the AR model and the estimated thresholds. The bottom panel displays the correlation between the estimated half-lives of the AR model and the reduction in half-lives when non-linearities are taken into account. Half-lives are equal to $\ln(0.5)/\ln(1-\beta)$, with the half-life of the TAR model reflecting the half-life of a shock when outside the band of no-arbitrage. Correlation coefficients with p-values in brackets are shown in the graphs.

