

A World Without Treasuries? 1998-2000

William W. Bratton, Penn Law School
Wharton Financial Institutions Center Conference: “Is
US Government Debt Different?”
Philadelphia, May 4-5, 2012

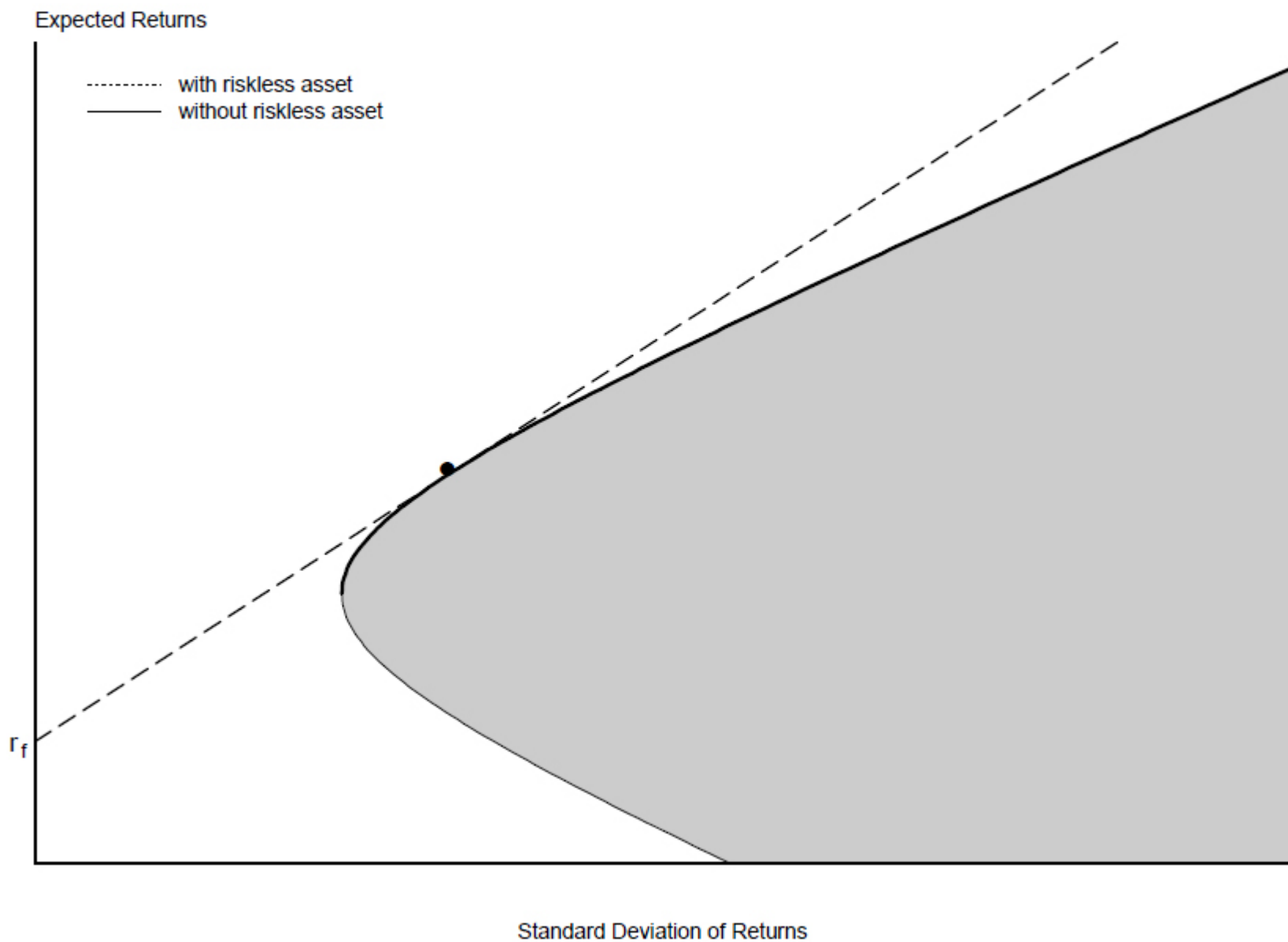
Geithner to Congress, 2011

A default would impose a substantial tax on all Americans. Because Treasuries represent the benchmark borrowing rate for all other sectors, default would raise all borrowing costs. Interest rates for state and local government, corporate and consumer borrowing, including home mortgage interest, would all rise sharply. Equity prices and home values would decline, reducing retirement savings and hurting the economic security of all Americans, leading to reductions in spending and investment, which would cause job losses and business failures on a significant scale.

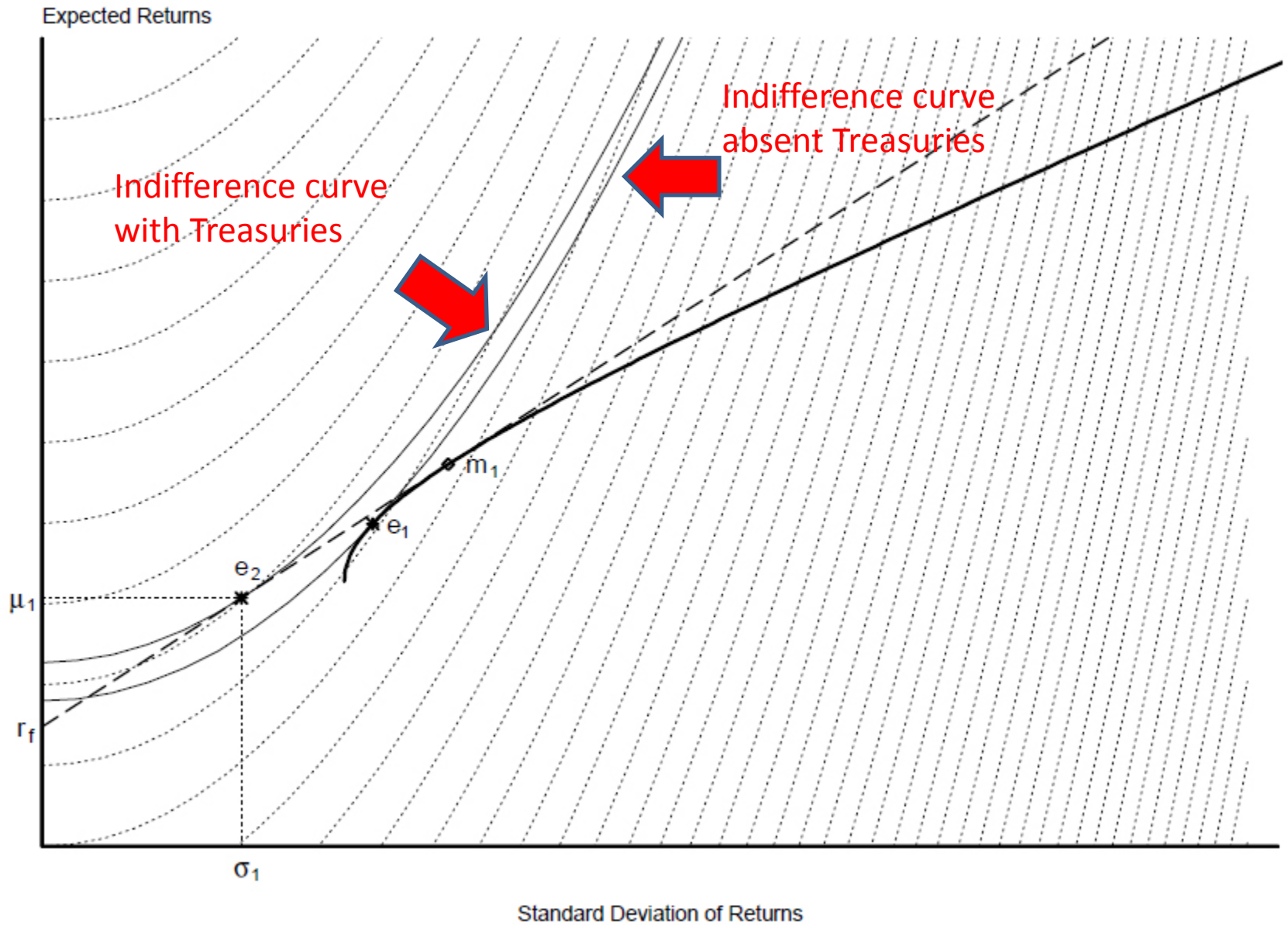
CAPM

$$E(R_a) = R_f + \beta_a [E(R_m) - R_f]$$

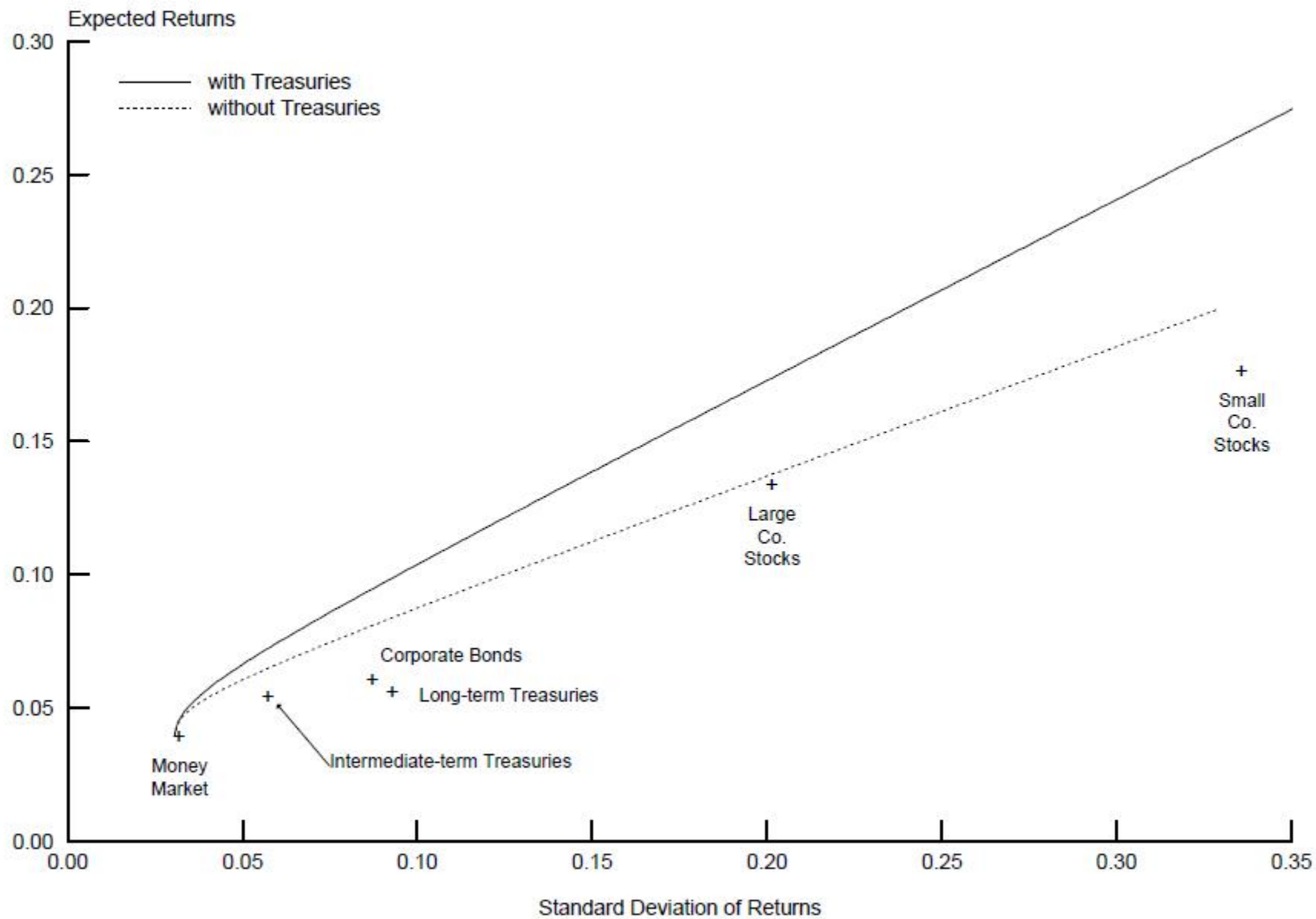
Efficient Portfolio Frontier



Optimal Portfolio Allocations



Portfolio Frontiers



Functions of treasuries

- (1) benchmark pricing and quotation in the bond markets
- (2) key component of global bond indices used by money managers
- (3) major instruments for hedging fixed -income positions in the US dollar and in international markets
- (4) collateral for financial transactions
- (5) primary tool in bank liquidity management

U.S. Corporate Bonds: Yields and Spreads
(In percent)

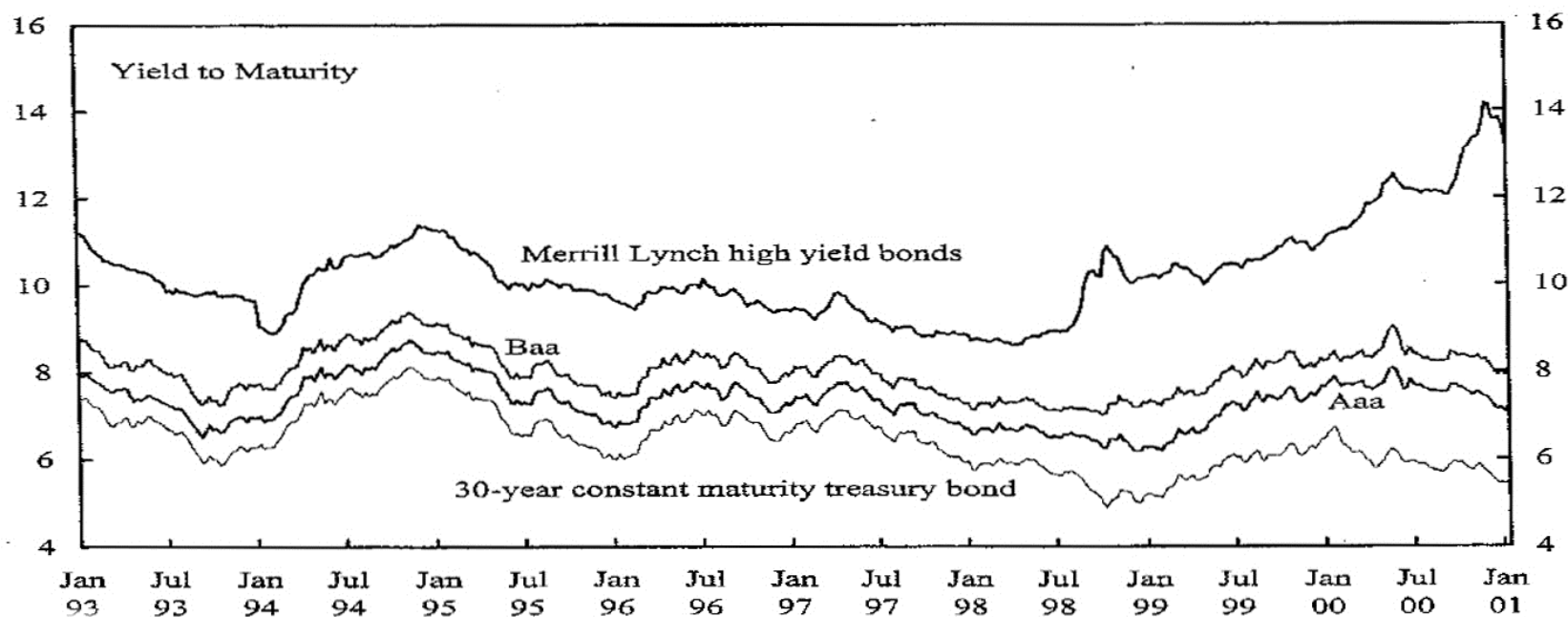
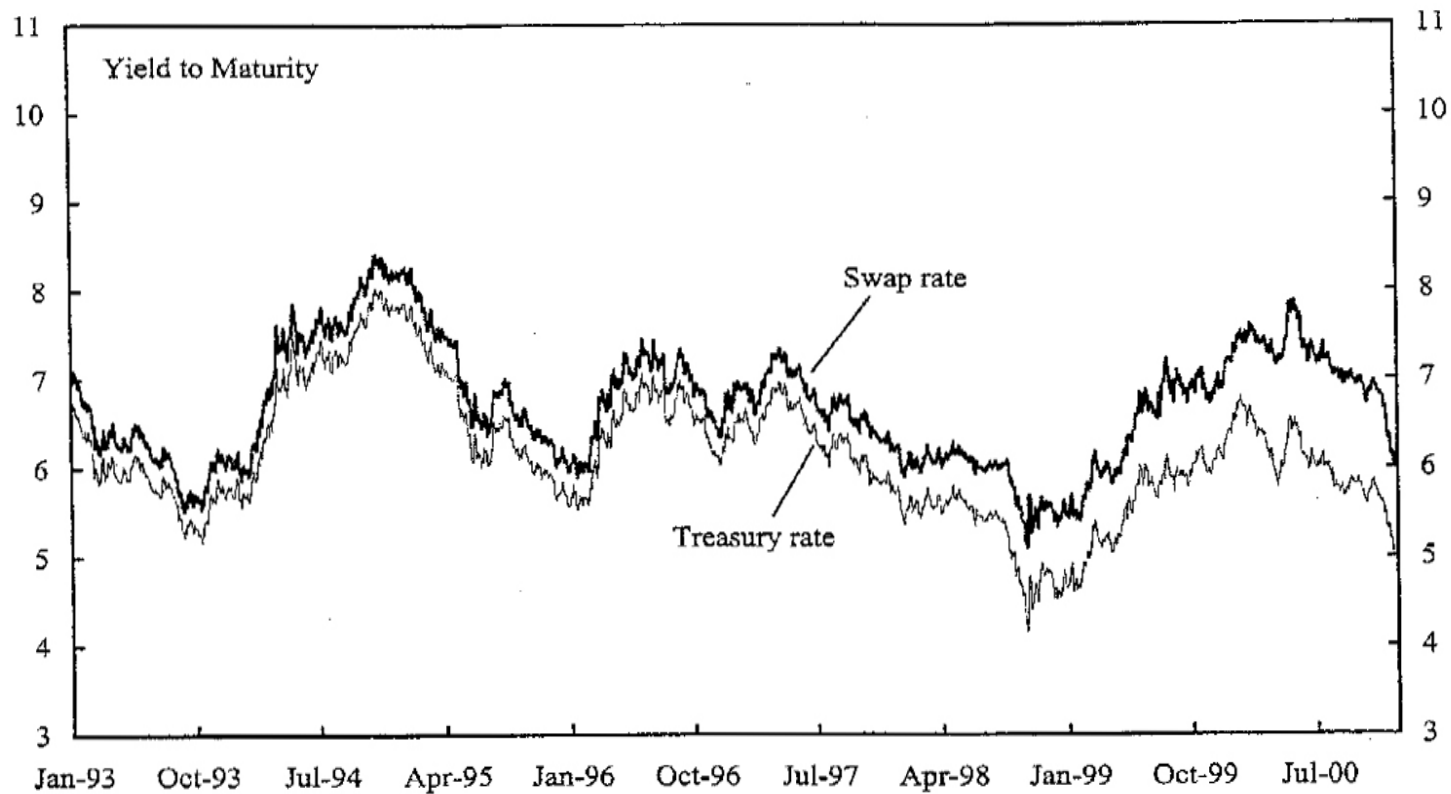
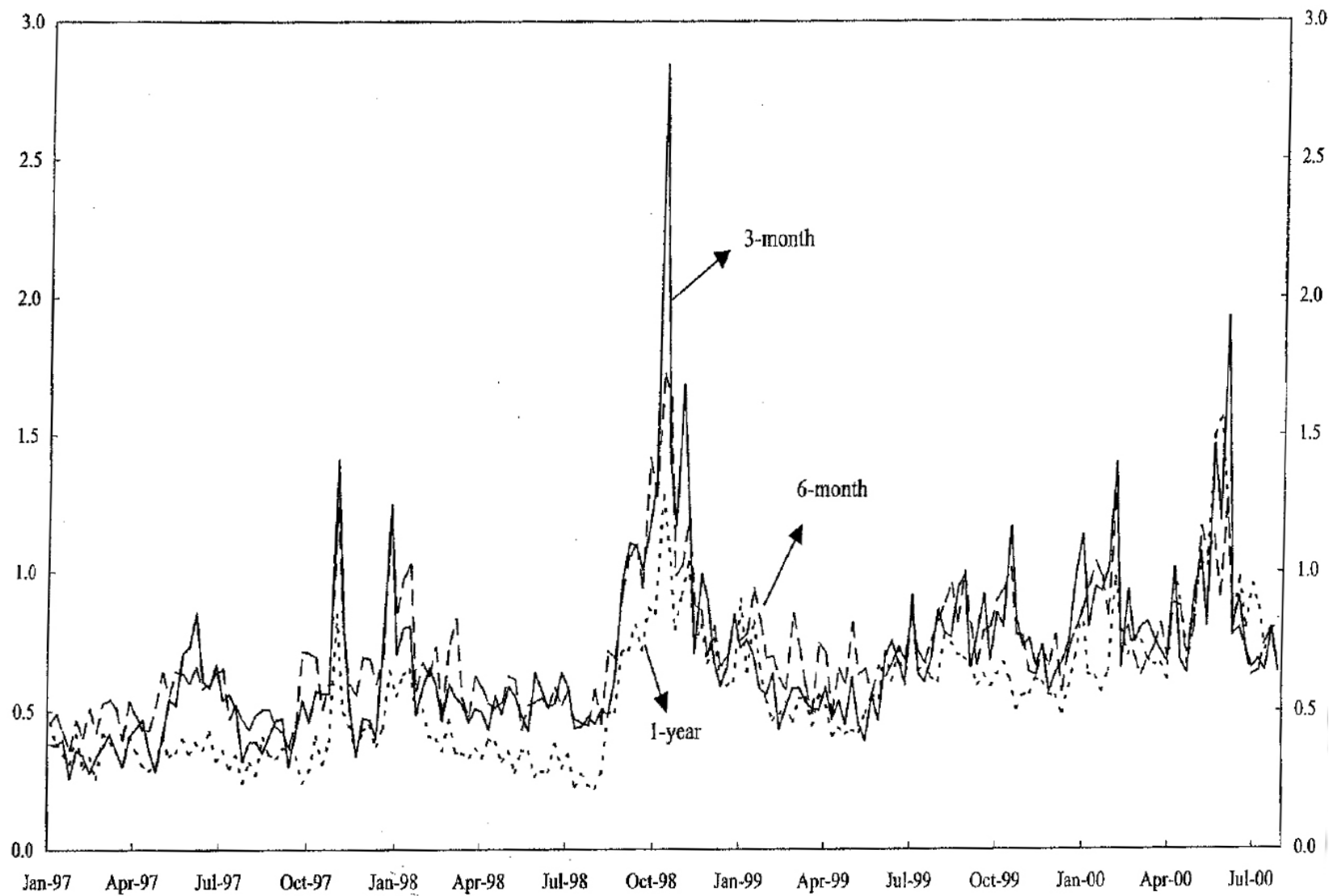


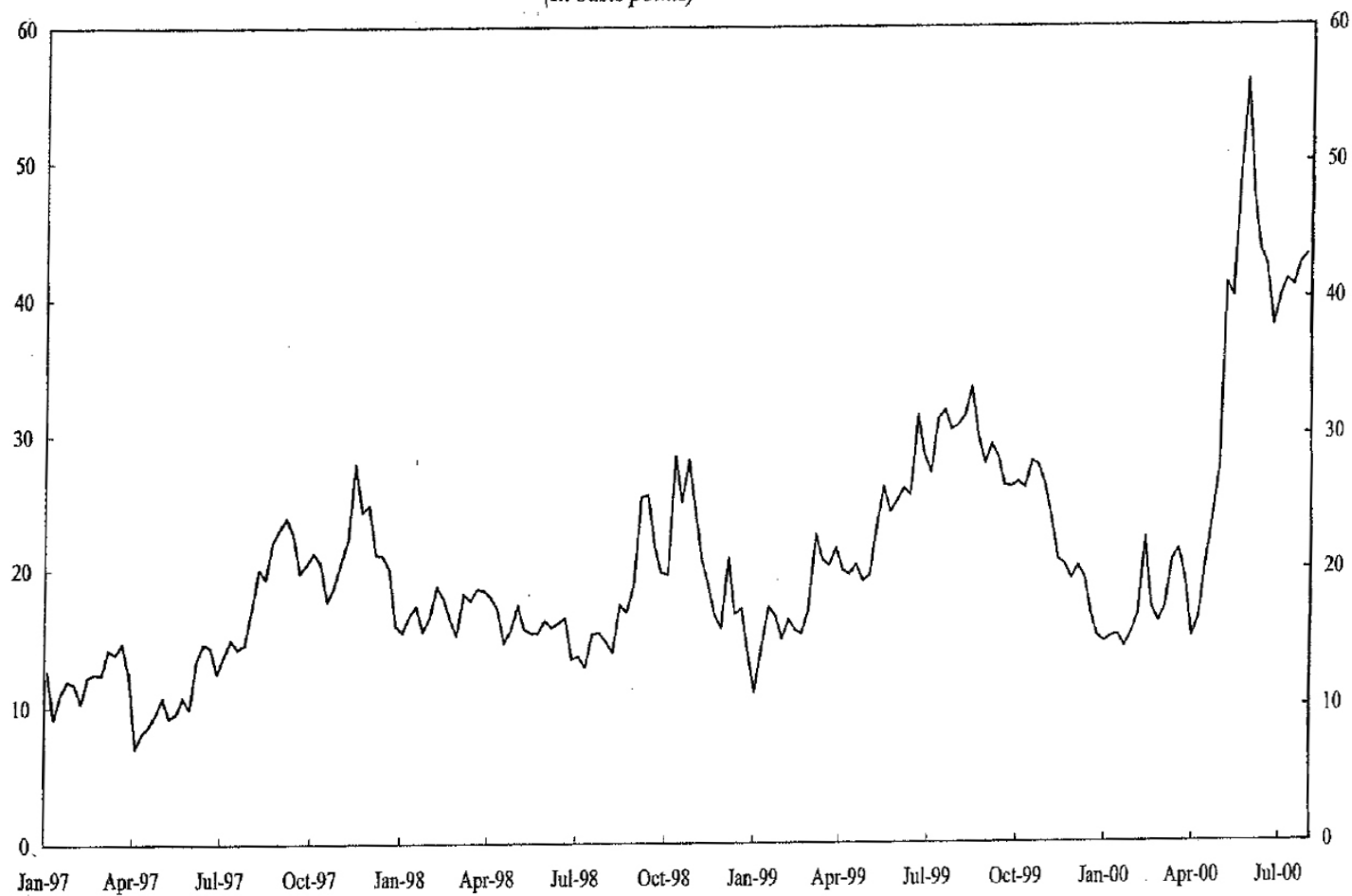
Figure 10-Year Swap and Treasury Rates
(In percent)



Bid-Ask Spreads of U.S. Treasury Bills
(In basis points)



Off-the-Run On-the-Run Yield Spread of One-Year U.S. Treasury Bills
(In basis points)



Substitutes

- Fannie
- Freddie
- FHL
- Ford Motor Credit
- GMAC
- Swaps
- Other high grade corporates
- Bank liabilities

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