

Reasons for the recent increase in the Libor-OIS spread

Bachelor Thesis

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Abstract

This paper analyzes with the help of further literature why the spread between the Libor interest rate and the Overnight Index Swap interest rate has recently increased with the start of the financial crisis in 2007. The Libor-OIS Spread is a good indicator to measure tension in the interbank markets. The different Risk concerns are elaborated and influencing factors are highlighted. I present four possible explanations from the literature on the meaning of the spread: I) the European View, II) the American View, III) Predatory Banks and IV) the shift in the microstructure of the interbank market.