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Response to Xiao Wang on His Comments on Our Paper Entitled, "Capital Forbearance, Ex Ante Life Insurance Guaranty Schemes, and Interest Rate Uncertainty"

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Dear Mr. Wang,

The answers to your remarks are the following list:

(1) You can refer to *Interest Rate Models: Vasicek* (by Peter Carr Bloomberg LP and Courant Institute, NYU, Based on Notes by Robert Kohn, Courant Institute, NYU), which offers the derivation of pricing bond by using the Vasicek model. Another paper, *A Comparative Study of the Vasicek and the CIR Model of the Short Rate* (by S. Zeytun and A. Gupta) discusses the comparative study of the Vasicek and the CIR Model of the Short Rate. They make the conclusion that a high sigma in the Vasicek model could result in negative interest rates which is not observable in reality.
(2) Market risk is the risk of losses in positions arising from movements in market prices. The market price of the market risk means the risk premium of losses in our position arising from movements in market prices. Since the value of our position is related to (w_1, w_2), the risk premium of our position is related to (w_1, w_2).
(3) We thank you for your kind suggestions in remark (3) and (4).

Discussions on this article can be submitted until October 1, 2016. The authors reserve the right to reply to any discussion. Please see the Instructions for Authors found online at http://www.tandfonline.com/uaaj for submission instructions.

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