Due date: 02/23/06 before the start of lecture

Q1. Do question 3 at the end of Chapter 9  
(tip: the price quoting convention is to quote bond price relative to $100 face value)

Q2. Do question 4 at the end of Chapter 9

Q3. Do question 9 at the end of Chapter 9  
(tip: assuming market interest to stay the same)

Q4. Do question 10 at the end of Chapter 9

Q5. Do question 14 at the end of Chapter 9

Q6. Do question 24 at the end of Chapter 9 (Q22 old v5 textbook)

Q7. Do question 25 at the end of Chapter 9 (Q23 old v5 textbook)

Q8. You observe the following information about Bond A and Bond B in the market:
   
   (i). Bond A is a two year zero couple bond with $1000 face value. It is currently trading at $800;
   (ii). Bond B is a two year bond with annual coupon at rate of 20% and a face value of $1000. Bond B is currently priced at 11.5% annualized yield-to-maturity.

   a. what is the market price of bond B?

   b. What is the implied one-year and two-year discount factors (how much would you pay today for a dollar to be delivered in one or two years? 

   c. What is the one year and two year spot rates ($s_1$ and $s_2$), and one-year forward rate ($f_{1,2}$)?

   d. What should be the current market price of a two-year bond with 10% annual coupon rate and $1000 face value (Bond C)?

   e. What is the implied YTM for Bond C, based on the market price you just calculated? Is the YTM for Bond C different from that of Bond A or Bond B?