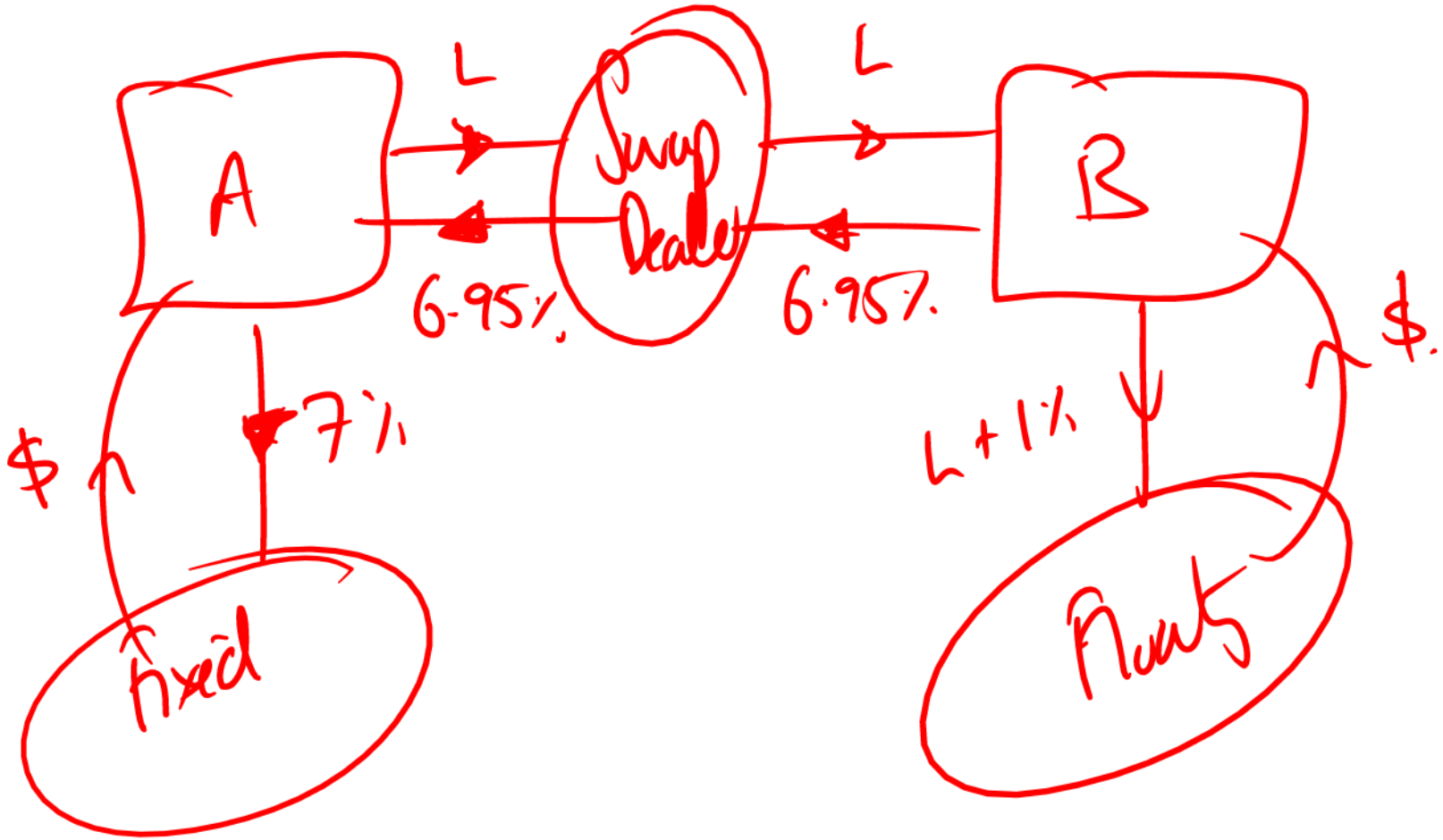
STUART JACKMAN



A exposure

L + 5bps

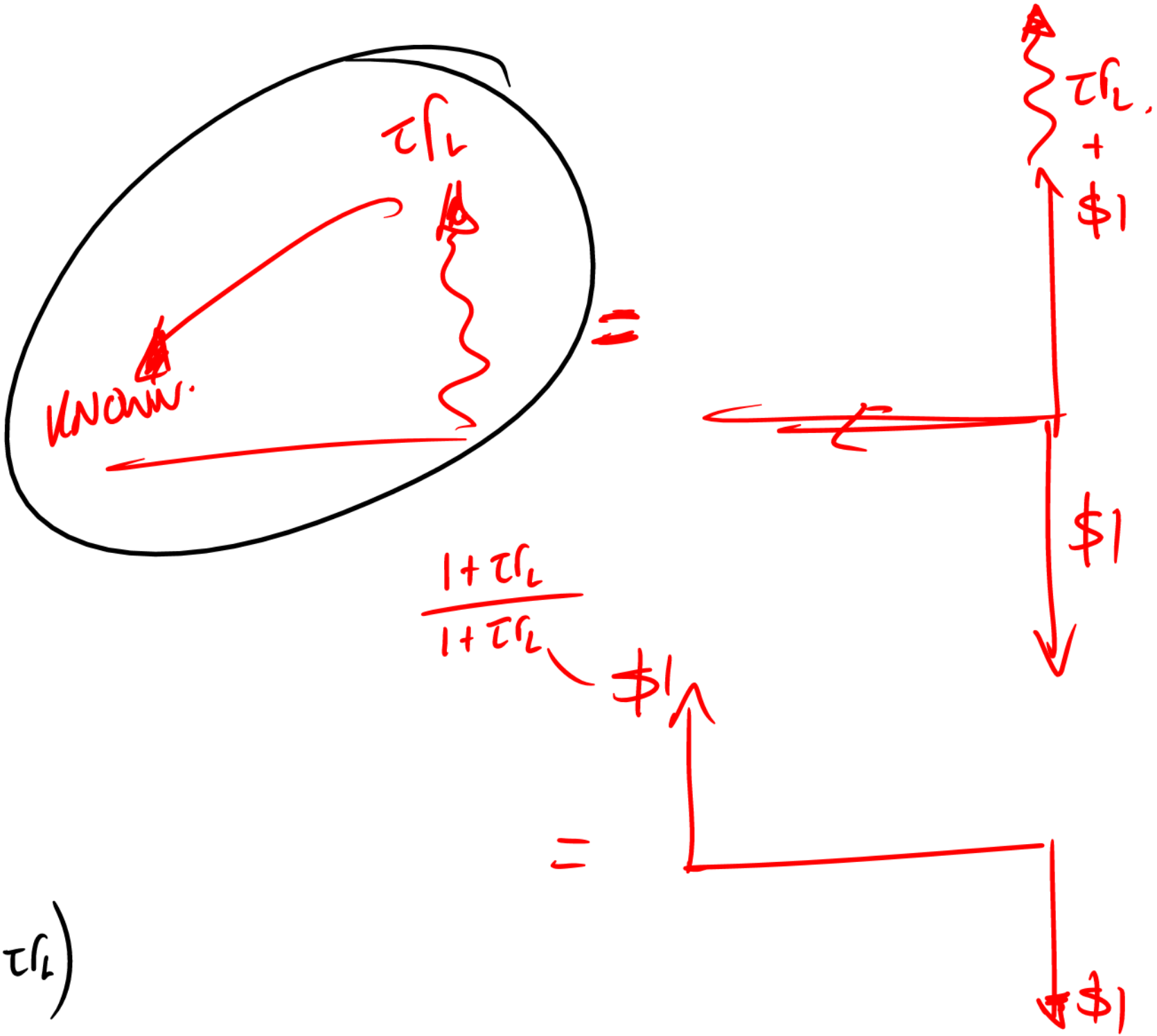
B's exposure

7.95%

$$PV\left[\text{Fixed leg side}\right] = PV\left[\text{Float side}\right]$$

$$\tau \cdot S \sum_{i=1}^{N} Z(t,T_i) = 1 - Z(t,T_N)$$

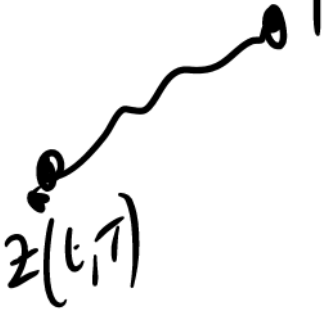
(FIXED) (FLOATING)



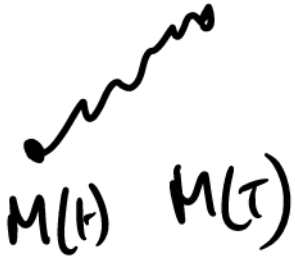
$\times\left(1+r_L\tau\right)$

$\rightarrow$

$\therefore$ $\leftarrow \left(1+r_L\tau\right)$



$$dM = r(t) \cdot M \cdot dt$$



$$\int_t^T \frac{dM}{M} = \int_t^T r(\tau)\, d\tau$$

$$M(T) = M(t)\, e^{\int_t^T r(\tau)\, d\tau}$$

or

$$1 = Z(t,T)\, e^{\int_t^T r(\tau)\, d\tau}.$$

$$-\frac{1}{D}\frac{dV}{dy} = \frac{+(T-t)Pe^{-y(T-t)} + \sum C_i (t_i - t) e^{-y(t_i - t)}}{Pe^{-y(T-t)} + \sum C_i e^{-y(t_i - t)}}$$

time