



2-4 questions



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## 2. Cash and Cash Equivalents

### Money markets: background

- Cash deposits and loans out to 12 months

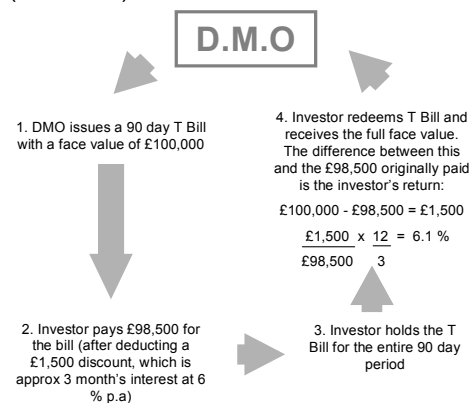
### Inter-bank market

- LIBOR: London inter-bank offered rate
- LIBID: London inter-bank bid rate

## 2. Cash and Cash Equivalents

### Government bills

UK Treasury bills (UK T-bills)



## Hints

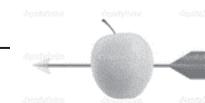
Commercial paper is the corporate version of a T-Bill.



## Keeping on target

A 6 month T-bill is purchased for £97,000, the quoted yield is:

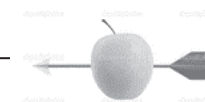
- A. 3.00%
- B. 6.19%
- C. 6.28%
- D. 12.37%



## Keeping on target

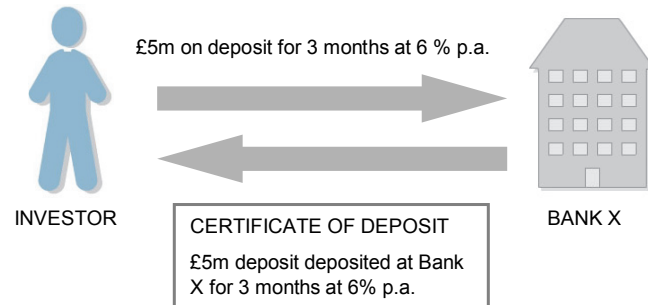
A 3 month T-bill is purchased for £95,000, what is the yield to redemption on an annual compound basis?

- A. 25.53%
- B. 22.77%
- C. 643%
- D. 526%



## 2. Cash and Cash Equivalents

### Certificates of deposit



### Answers to the questions on the previous slide:

B

The quoted yield would be an annualised yield rather than a compound yield.

$$\frac{£100,000 - £97,000}{£97,000} \times 2 = 0.0619 \text{ (or 6.19\%)}$$

B

This question explicitly asks for a compound yield.

$$\left( \frac{£100,000}{95,000} \right)^4 - 1 = 0.2277 \text{ (or 22.77\%)}$$