FINM2063 Introduction to Finance

Chapter 8 Exercises

1. A $1,000 bond has a 7.5% coupon and matures after ten years. If current interest rates are 10%, what should be the price of the bond?
2. If after six years interest rates are still 10%, what should be the price of the bond?
3. Even though interest rates did not change in *a* and *b*, why did the price of the bond change?
4. Change the interest rate in *a* and *b* to 6% and rework your answers. Even though the interest rate is 6% in both calculations, why are the bond prices different?
5. Charlotte’s Clothing issued a 5% bond with a maturity date of 15 years. Five years have passed and the bond is selling for $690.
6. What is the current yield?
7. What is the yield to maturity?
8. If five years later the yield to maturity is 10%, what will be the price of the bond?
9. Suppose Ford Motor Company sold an issue of bonds with a 10-year maturity, a $1,000 par value, a 10% coupon rate, and semiannual interest payments.
   1. Two years after the bonds were issued, the going rate of interest on bonds such as these fell to 6%. At what price would the bonds sell?
   2. Suppose that the interest rate remained at 6% for the next eight years. What would happen to the price of the Ford Motor Company bonds over time?