



FIXED INCOME SECURITIES

FRE : 6411

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Future Price with Delivery Option

- Assume we have 4 period economy .
- Find period 0 price of 1% coupon bearing bond maturing in period 4. Find Future price for a Future contract maturing in period 2, with the underlying asset is this coupon bearing bond.
- Find period 0 price of 3% coupon bearing bond maturing in period 3. Find Future price for a Future contract maturing in period 2, with the underlying asset is this coupon bearing bond.
- We have a Future contract maturing in period 2, and the seller can deliver either one of these two coupon bonds. Using the 4 period coupon bond as the reference bond find the price of this Future contract and identify which bond will the seller deliver against this Future contract in all states in period 2.