Bond-pricing done right

Soumadeep Ghosh

Kolkata, India

Abstract

In this paper, I describe bond-pricing done right.
The paper ends with "The End"

Introduction

Even most economists and financiers don't **know** how to price bonds right.

In this paper, I describe bond-pricing done right.

Bond-pricing done right

Suppose a bond has n **coupons** C_i where $i \in \{1, 2, \ldots, n-1, n\}$ and a **maturity** M at $t = T$.

Define n **coupon indicator variables**

$$I_i(t) = \frac{t - \tau_i}{T - \tau_i}$$

where τ_i is the time when the coupon C_i is **redeemed**.

Define the **maturity indicator variable**

$$I_M(t) = \frac{t - \tau_M}{T - \tau_M}$$

where τ_M is the time when the bond is **redeemed**.

Then the **right price** of the bond is

$$P(t) = M I_M(t) + \sum_{i=1}^{n} C_i I_i(t)$$

The End