

Recovery rate

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1 Questions

Ex. 1 — Corporation XYZ issued bond A sometime ago. It is now issuing a second bond B. The issuance prospect says that bond B is subordinated to bond A.

1. What does it mean to be “subordinated”?
2. Which bond do you expect to trade at a higher yield in the market? Why?

Ex. 2 — Plot the beta density for the recovery rate of “Junior subordinated” bonds in table 1.1 of the handouts.

Note: you may use the function `betapdf()` in Matlab or `beta.dist()` in Excel.

Ex. 3 — Draw 10,000 numbers from this distribution and plot the histogram.

Note: you may use the function `betarnd()` in Matlab. I don’t know how to do this in Excel.