Assignment #3

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Advanced Quantitative Analysis in Finance

Exercise 1. Pricing a CDS Spread Trade. With the term structure of credit defaults Python code given in class, do the following:

- Price a 5y-10y spread trade. This means that you go long (short) protection on a 5-yr CDS and simultaneously go short(long) protection on a 10-year CDS.
- Determine the DV01, the dollar value change for a 1 bp move on the trade above.
- Use the term structure of CDS spreads that is in the code and assume 40% recovery rate and 10 million USD notional on both legs of the spread trade.

You will need to modify the code somewhat but think. This is not difficult.