BUS312: Introduction to Corporate Finance

Assignment #8

Question #1

Consider a bond which offers a 10% coupon rate, paid semi-annually, and has a par value of $10,000. There are 20 remaining coupon payments on the bond. The next and upcoming coupon is in exactly 4 months.

a. Use "goal seek" in EXCEL to find the yield to maturity on this bond if it has a *value* (i.e., invoice price) of $9,000, $10,000, or $11,000. Recall that the yield to maturity is the IRR on the bond purchase stated as a per annum nominal rate compounded semi-annually.
b. What is accrued interest on this bond?
c. What is the quoted price of the bond if it has an invoice price of $9,000, $10,000, or $11,000.

Question #2

Consider a bond which offers a 10% coupon rate, paid semi-annually, and has a par value of $10,000. There are 20 remaining coupon payments on the bond. The next and upcoming coupon is in exactly 4 months. The yield to maturity on the bond is 11 percent per annum compounded semi-annually. You buy the bond today and sell it in exactly three years. The yield on the bond at that time is 10% per annum compounded semi-annually. Over the interim, you receive and reinvest coupons at a rate of 10.5 per cent per annum compounded daily (360 days in a year). For the purpose of calculations with this rate , you can presume that there are 30 days in a month.

a. What is your annualized holding period rate of return on your three year investment?
b. What is the quoted price of the bond and accrued interest when you purchase it?
c. What is the quoted price of the bond and accrued interest when you sell the it?