

HW#5 Extra problem

In Example 1.9 (Bond Portfolio) suppose that one is allowed to invest in a portfolio of bonds such that the cash generated for a time period may exceed the amount of the liability for that time period. Any excess cash generated is re-invested at an interest rate of 2% for one time period and can be used toward future liabilities. Assume that fractional investments in bonds are allowed. Formulate this modified version of the Bond Portfolio problem as a linear program and solve in MATLAB. Why would it be advantageous to allow excess cash generation and reinvestment?

Note: Example 1.9 is referring to slides 29-32 in the intro to linear programming slides posted in the Files section of the course website.