Quiz #2 (2024)

1. (3) Explain **Term Structure** briefly.
2. (5) If **the Law of One Price** were violated, how could investors profit?
3. (8) You want to buy a house in Gangbuk area, Seoul, by borrowing $400,000. **If you obtain a 30-year loan at 6% APR with monthly compounding, i) what is your monthly payment? ii) How much goes to interest over the loan’s life?**
4. (9) You have an opportunity to buy several B-rated bonds for $841. B-rated bonds currently yield 12% APR and these bonds have a coupon rate of 10%. The bonds have a face value of $1,000, mature in exactly six years and the next semiannual coupon payment will occur in exactly 6 months.
   1. What is the value of one bond?
   2. Is the bond’s yield to maturity at a price of $841 equal to, above, or below 12% APR?