

BASIC PRINCIPLES OF FINANCIAL VALUATION DISCOUNTING

Examples and Applications:
Bonds

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BONDS

Simple debt instruments

Promise coupons (interest) and face value

Easy application of DCF valuation

KINDS OF BONDS

U.S. treasury bonds

Corporate Bonds

Municipals

Sovereign Debt

What's different about each?

HOW TO VALUE BONDS

Bond contract: what cash and when

All we need to do is discount the payments

TREASURY BOND EXAMPLE

Treasury issues 3 year bonds with a 2.5% coupon rate. If the six month interest rate is 1.2%, what is the price of the bond per \$100 of face value?