## $3.5~\mathrm{HL}~\mathrm{model}$

Construct a Ho-Lee lattice for the following data. Rates are continuously compounded. Volatility is 5% which is constant.

Maturity	(t)	Spot rate	) (	t	)
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0.5	0.05
1	0.055
1.5	0.06
2	0.062

## SOLUTION (HO-LEE RATE LATTICE) $\,$

