

Assignment 1: Answers
(February 3, 1998)

1. STRIPS...

(a) Spot and forward rates are

Maturity (Yrs)	Spot Rate	Forward Rate
0.5	6.000	6.000
1.0	5.500	5.001
1.5	5.333	4.999

(b) Price is

$$4 \times d_1 + 104 \times d_2 = 102.391$$

(c) Six-month returns (h):

	Return on A (%)	Return on B (%)
Scenario 1	6.00	7.011
Scenario 2	6.00	6.001
Scenario 3	6.00	4.011

2. Banc One: (a) $u = 108$, (b) Accrued Interest = 2.100, (c) Invoice Price = 106.1257, and (d) Yield = 5.901%.

3. Citicorp eurobond (annual coupon and compounding): (a) $u = 11$, (b) Accrued Interest = 0.2139, (c) Invoice Price = 104.8239, and (d) Yield = 6.056%.