

Name..... ID.....

FN 211: Practice Questions
(Bond Valuation)

Assume that you purchased an 8 percent, \$1,000 par bond that matures in 3 years, the bond's YTM is 10% and coupon interest is paid semiannually.

(a) Calculate the price of this bond when YTM is 10% and the price of this bond when YTM is 12%

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(b) Calculate this bond's Macaulay and Modified duration (assuming YTM is 10%).

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(c) Indicate if Macauley duration would be more or less than your answer in (b) if the coupon of the bond were 4 percent, not 8 percent. Explain with a SHORT reason.

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(d) Indicate if Macauley duration would be more or less than your answer in (b) if the maturity of the bond were 5 years, not 3 years. Explain with a SHORT reason.

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(e) Given Modified Duration of 2.588 and assuming the bond's YTM goes from 10% to 12%, calculate an estimated price using only modified duration.

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(f) Given Modified Duration of 2.588 and Convexity of 4.1692, and assuming the bond's YTM goes from 10% to 12%, Calculate an estimated price using both modified duration and convexity.

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