Economics 423

Fall 2019

Tutorial Exercise 2

This tutorial is based on GTB Chapter 5.

Use the following information for Question 1.

1. There are three zero coupon bonds with a face value of $10 million. One matures one year from now and is selling at $9,433,962.30. The second matures two years from now and is selling for $8,573,388.20. The third matures three years from now and is selling at $7,117,802.50.

    A. What is the yield to maturity of the second bond?

    B. What is the yield to maturity of the third bond?

    C. What is the implied forward rate between time 1 and time 2?

    D. What is the implied forward rate between time 2 and time 3?

2. Work through Example 5.2.

3. Work through Example 5.3.

4. Work through Example 5.4.

5. Work through the example beginning page 112 and continuing on page 113. It neatly illustrates interest rate risk for a bank's mismatch of assets and liabilities.