

Homework — Bonds and the Price of Debt

Required questions - turn in to the TAs

Homework for Week 7. Each set belongs to the video of the same number. **One question in each set is required**; answer it and turn it in to the TAs. The rest are optional practice, and worked answers to those are published alongside the set. A full set takes about twenty minutes. Work them before the case session.

Homework • 7.1

1. A bond has face value KSh 200,000, a 12% annual coupon, and 4 years to maturity. Draw the full cash-flow timeline, labelling each amount.

Homework • 7.2

1. Price a 4-year bond with a 10% annual coupon and face value 100, at required yields of 8%, 10%, and 12%.

Homework • 7.3

1. A bond's price falls 8% in a week. Give three possible explanations and describe what evidence would distinguish between them.

Homework • 7.4

1. A corporate bond yields 19.5% while the comparable sovereign yields 13.5%. State the spread in basis points, and compute the implied annual default probability assuming 35% recovery.

Homework • 7.5

1. Price a 3-year and a 12-year bond, both with 10% annual coupons and face value 100, at yields of 10% and 13%. Compute the percentage price change for each.