BUS-123 Spring 2014 Bond Prices and Yields Name: _____
Instr: F. Paiano Chap 10 Assignments / Notes

Chapter Assignments:
Required: See *Bond Valuation Assignment* (10 points)
Due: Tue/Thu May 1st; Online: May 3rd

Chapter Sections:
Bond Basics
Straight Bond Prices and Yield to Maturity
More on Yields
Interest Rate Risk and Malkiel's Theorems
Duration
Bond Risk Measures Based on Duration
Dedicated Portfolios and Reinvestment Risk
Immunization

Chapter Terms:
bond yield
nominal yield *versus* current yield *versus* yield-to-maturity *versus* yield-to-call
current yield = annual interest / market price

$$\text{Yield to Maturity} = \frac{\text{Annual Interest} + \dfrac{\text{Par Value} - \text{Market Price}}{\text{Number of Years to Maturity}}}{\dfrac{\text{Par Value} + \text{Market Price}}{2}}$$

$$\text{Yield to Call} = \frac{\text{Annual Interest} + \dfrac{\text{Call Price} - \text{Market Price}}{\text{Number of Years to Call}}}{\dfrac{\text{Call Price} + \text{Market Price}}{2}}$$

taxable equivalent yields (Federal tax-free *versus* double fax-free)
Federal tax-free equivalent yield = municipal bond yield / (1 - marginal tax bracket)
double tax-free equivalent yield = municipal bond yield / [1 - (Fed rate + { State rate * [1 - Fed rate] })]

yield spreads
inflation and bond yields
yield curve
upward-sloping yield curve (normal) *versus* downward-sloping yield curve (inverted)
theories re: yield curves
the correlation of inverted yield curves and recessions
bond pricing
bond price = present value of interest payments + present value of repayment of principal
(need to use: present value of a stream of payments [right table] *and* present value of a lump sum [left table])
reinvestment risk
duration
immunization
bond investment strategies
income strategy
capital gains strategy
total return strategy
bond laddering