

**Chapter Assignments:**

**Required:** See *Bond Valuation Assignment* (10 points)

**Due:** TueThurs April 30<sup>th</sup>; Online May 2<sup>nd</sup>

**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

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

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

taxable equivalent yields (Federal tax-free *versus* double tax-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