**MGT411**

**ASSIGNMENT #1**

**QUESTION #1.**

**SOLUTION.**

**1)**

**Coupon rate 4%.**

**Selling rate 80.**

= $4/1+i + $100/1+i =80.

1+i = 104/80

I= 1.3-1

I=0.3

I=30

When the face value is greater than the sale price, yields to maturity is greater than the coupen rate.

2) **SOLUTION.**

= $5/1+i + 100/1+i= 100

1+i = 5+100/100

1+i= 105/100

1+i= 1.05

I= 1.05-1

I=0.5

I=5

Bound price = selling price

Face value

Coupen rate = yields to maturity.

**3) SOLUTION.**

=$6/1+i +100/1+i=150

1+i= 106/150

1+i= 0.706

I=0.706-1

I= - 0.29

I= - 29

Selling price >face value

Coupen rate is greater then yields to maturity.

**QUESTION #2.**

**SOLUTION.**

**Relation ship between a bound price and its coupen rate, current yeild and yeild to maturity.**

**Bound price < face value :**

Coupen rate < current yeild < yeild maturity.

**Bound price = face value:**

Coupen rate = current yeild = yeild maturity.

**Bound price > face value:**

Coupen rate > current yeild > yeild maturity.