

CB3044 Assignment 1

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Due: 2022 Oct 16 11:59PM

Show your work!

1. Distinguish between primary markets and secondary markets. List two examples of each market.

wk1 p,14

2. Why are long-term bonds more risky than short-term bonds?

wk2 p,26, 27, 30

3. Consider a bond that promises the following cash flows. The required discount rate is 12%.

Year	0	1	2	3	4
Promised Payments		160	170	180	230

You plan to buy this bond, hold it for 2½ years, and then sell the bond.

- a. What total cash will you receive from the bond after the 2½ years? Assume that periodic cash flows are reinvested at 12%.
- b. If immediately after buying this bond, all market interest rates drop to 11% (including your reinvestment rate), what will be the impact on your total cash flow after 2½ years? How does this compare to part (a)?
- c. Assuming all market interest rates are 12%, what is the duration of this bond?

wk 4

解釋為什麼在次貸崩盤後會出現避險，以及這如何影響低質量公司債券和國債的利率。

4. Explain why a flight to quality occurred following the subprime collapse and how this affected the interest rates on lower-quality corporate bonds and Treasury bonds.

wk 2 p,61 & wk 4 p,17 higher to attract investors lower

5. Which is the most widely accepted theory of the term structure of interest rates, and why?

wk 2 p, 46 & wk 6 p, 54, 59, 60, 66, 67, 68, 74, 76

6. Verizon Wireless has just announced a 2-for-1 stock split, effective immediately. Prior to the split, Verizon Wireless had a market value of \$10 billion with 200 million shares outstanding. Assuming that the split conveys no new information about the company, what is the value of the company, the number of shares outstanding, and price per share after the split? If the

actual market price immediately following the split is \$34.00 per share, what does this tell us about market efficiency?

wk 5

7. If the public expects the Microsoft Corporation to increase \$10 a share this quarter and it actually increases \$6, which is still one of the largest gains in the history of the company, what does the efficient market hypothesis say will happen to the price of the stock when the \$6 increase is announced?

wk 5

8. Explain how the Federal Reserve can influence the federal funds interest rate.

wk 7 p,17

9. Explain three reasons why T-bills have low interest rates.

wk 7 p,23,24 & wk 2 p,15, 18 & wk 4 p,9 & wk 6 p,8

10. What are (i) callable bonds and (ii) convertible bonds, and how do these features affect the bond prices and interest rates?

wk 4 p,30,31

11. What role do restrictive covenants play in bond markets?

wk 4 p,32

限制性契約

12. Why would a crisis in the subprime mortgage market lead to declining prices in the U.S. equity markets?

wk 2 p,61 & wk 4 p,17 & wk 8

13. Suppose you are faced the following situation: you decide to buy company's share which is going to pay an annual dividend of \$5 and promising the growth rate of 5%; You have estimated risk of the company and decided that required rate of return should be 10%. Another investor Anna estimated her return as 12%, since she thought that you are too optimistic regarding company's growth rate. Anna's colleague George is also interested in purchasing of stock, so he looked on market price and Anna's suggestion and decided to require something in middle- 11%. What will be the market price for stock? What you can learn from this example?

wk 5

14. In what way are mortgage markets different from the stocks and bond markets?

wk 4,5,8

15. Consider a 28-year fixed-rate mortgage for \$750,000 at a nominal rate of 7.5%. What is the difference in required payments between a monthly payment and a bimonthly payment (payments made twice a month)?

wk 8