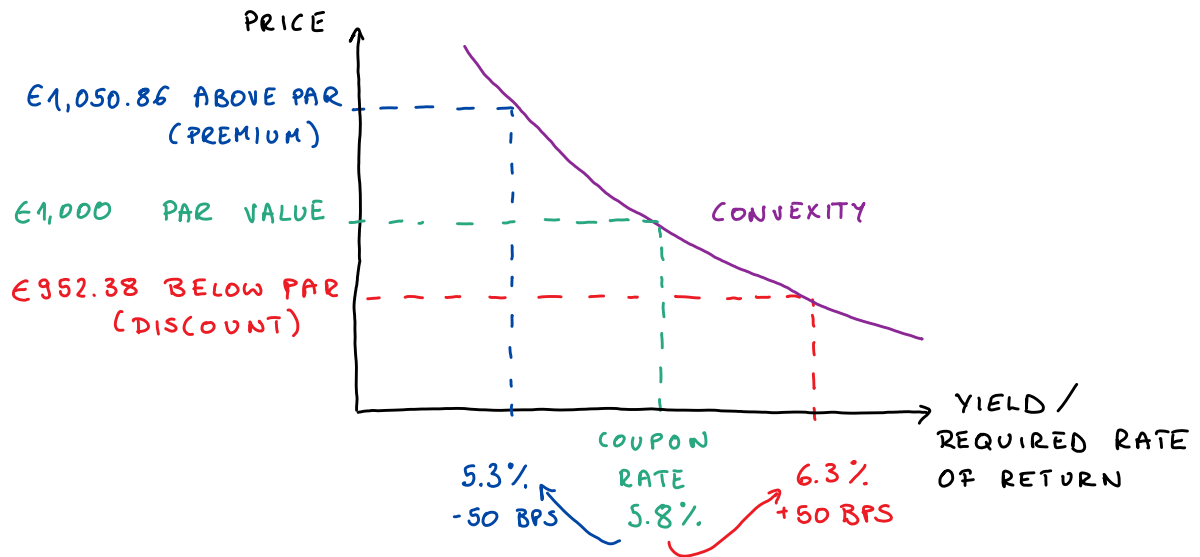


**QUESTION 1 (C)**



$N=15$  ;  $PV = -1,000$  ;  $PMT = 58$  ;  $FV = 1,000$  ;  $CPT \ 1/Y = 5.8$

$\uparrow$  YIELD BY 50 BPS (0.5%)  $\Rightarrow 1/Y = 5.8 + 0.5 = 6.3$  ;  $CPT \ PV = 952.38$

$1,000 - 952.38 = -47.62 \rightarrow$  PRICE DROP

$\downarrow$  YIELD BY 50 BPS  $\Rightarrow 1/Y = 5.8 - 0.5 = 5.3$  ;  $CPT \ PV = 1,050.86$

$50.86 \rightarrow$  PRICE INCREASE

INVERSE EFFECT : YIELDS  $\uparrow \rightarrow$  BOND PRICES  $\downarrow$   
 $\downarrow \rightarrow$  BOND PRICES  $\uparrow$

CONVEXITY EFFECT:



**QUESTION 2 (A)**

		4% CURRENT PRICE	+ 250 BPS →	6.5% NEW PRICE	% PRICE CHANGE
BOND	X	103.63		94.86	-8.5%
BOND	Y	114.52		105.14	-8.2%

COUPON EFFECT: HIGHER COUPON → LESS SENSITIVITY TO YIELD CHANGES

LOWER COUPON → MORE SENSITIVITY — " —



ZERO-COUPON BONDS → MOST SENSITIVE

**QUESTION 3 (A)**

		4% CURRENT PRICE	- 250 BPS →	1.5% NEW PRICE	% PRICE CHANGE
BOND	Y	114.52		125.05	+8.2%
BOND	Z	126.93		148.66	+17.1%

MATURITY EFFECT: SHORTER MATURITY → LESS SENSITIVITY TO YIELD CHANGES

LONGER MATURITY → MORE SENSITIVITY — " —