FIN 534 – Homework Set #2

Directions: Answer the following questions on a separate document. Explain how you reached the answer or show your work if a mathematical calculation is needed, or both. Submit your assignment using the assignment link in the course shell. This homework assignment is worth 100 points.

Assume that you are nearing graduation and have applied for a job with a local bank. The bank's evaluation process requires you to take an examination that covers several financial analysis techniques.
Use the following information for Questions 1 through 2:

1. What is the present value of the following uneven cash flow stream −$50, $100, $75, and $50 at the end of Years 0 through 3? The appropriate interest rate is 10%, compounded annually.

2. Suppose that on January 1 you deposit $100 in an account that pays a nominal (or quoted) interest rate of 11.33463%, with interest added (compounded) daily. How much will you have in your account on October 1, or 9 months later?

Use the following information for Questions 3 and 4:

A firm issues a 10-year, $1,000 par value bond with a 10% annual coupon and a required rate of return is 10%.

3. What is the yield to maturity on a 10-year, 9% annual coupon, $1,000 par value bond that sells for $887.00? That sells for $1,134.20? What does a bond selling at a discount or at a premium tell you about the relationship between rd and the bond's coupon rate?

4. What are the total return, the current yield, and the capital gains yield for the discount bond in Question #3 at $887.00? At $1,134.20? (Assume the bond is held to maturity and the company does not default on the bond.)