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Version: 3.00

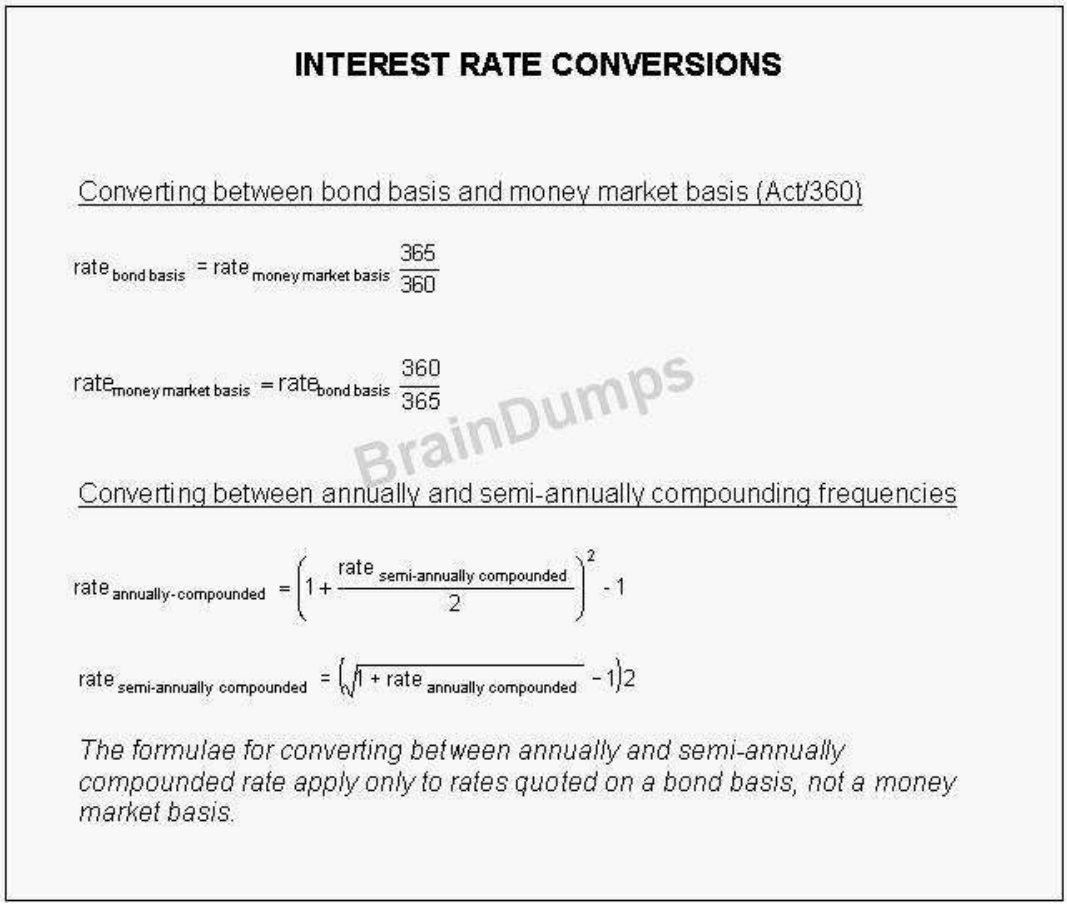
Topic 1, D

D

QUESTION NO: 1

Click on the Exhibit Button to view the Formula Sheet.

How many USD would you have to invest at 3.5% to be repaid USD125 million (principal plus interest) in 30 days?



MONEY MARKET

Certificates of deposit

$$\text{proceeds at maturity} = \text{face value}\left(1 + \frac{\text{coupon} \times \text{term}}{\text{annual basis}}\right)$$

$$\text{secondary market proceeds} = \frac{\text{proceeds at maturity}}{1 + \frac{\text{yield} \times \text{day count}}{\text{annual basis}}}$$

Discount-paying instruments quoted as a true yield

$$\text{secondary market proceeds} = \frac{\text{face value}}{1 + \frac{\text{yield} \times \text{day count}}{\text{annual basis}}}$$

Discount-paying instruments quoted as a rate of discount

$$\text{discount amount} = \text{face value}\ \frac{\text{rate of discount} \times \text{day count}}{\text{annual basis}}$$

$$\text{secondary market proceeds} = \text{face value}\left(1 - \frac{\text{rate of discount} \times \text{day count}}{\text{annual basis}}\right)$$

$$\text{true yield} = \frac{\text{rate of discount}}{1 - \frac{\text{rate of discount} \times \text{day count}}{\text{annual basis}}}$$

Forward price of sell/buy-back

$$\text{forward price} = \frac{(\text{repurchase price} - \text{accrued interest on collateral at termination})}{\text{nominal price of collateral}} 100$$

FORWARD-FORWARDS & FORWARD RATE AGREEMENTS

$$\text{forward - forward rate} = \left[\frac{1 + \frac{\text{interest rate}_{\text{long period}} \times \text{day count}_{\text{long period}}}{\text{annual basis}}}{1 + \frac{\text{interest rate}_{\text{short period}} \times \text{day count}_{\text{short period}}}{\text{annual basis}}} - 1\right] \frac{\text{annual basis}}{\text{day count}_{\text{forward-forward period}}}$$

$$\text{FRA settlement amount} = \text{notional principal amount}\ \frac{\left(\frac{(\text{FRA rate} - \text{settlement rate}) \times \text{day count}}{\text{annual basis}}\right)}{\left(1 + \frac{\text{settlement rate} \times \text{day count}}{\text{annual basis}}\right)}$$

FIXED INCOME

Clean and dirty price of bond with annual coupons on coupon date

$$\text{price} = 100\left[\left(\frac{\text{coupon}}{\text{yield}}\left(1-\frac{1}{(1+\text{yield})^{\text{remaining coupons}}}\right)\right)+\frac{1}{(1+\text{yield})^{\text{remaining coupons}}}\right]$$

Dirty price of bond with annual coupons

$$\text{dirty price} = \frac{\text{first cashflow}}{(1+\text{yield})^{\frac{\text{days to next coupon}}{\text{annual basis}}}}+\frac{\text{second cashflow}}{(1+\text{yield})^{1+\frac{\text{days to next coupon}}{\text{annual basis}}}}+\Lambda+\frac{n^{th}\text{ cashflow}}{(1+\text{yield})^{(n-1)+\frac{\text{days to next coupon}}{\text{annual basis}}}}$$

Duration at issue or on a coupon date

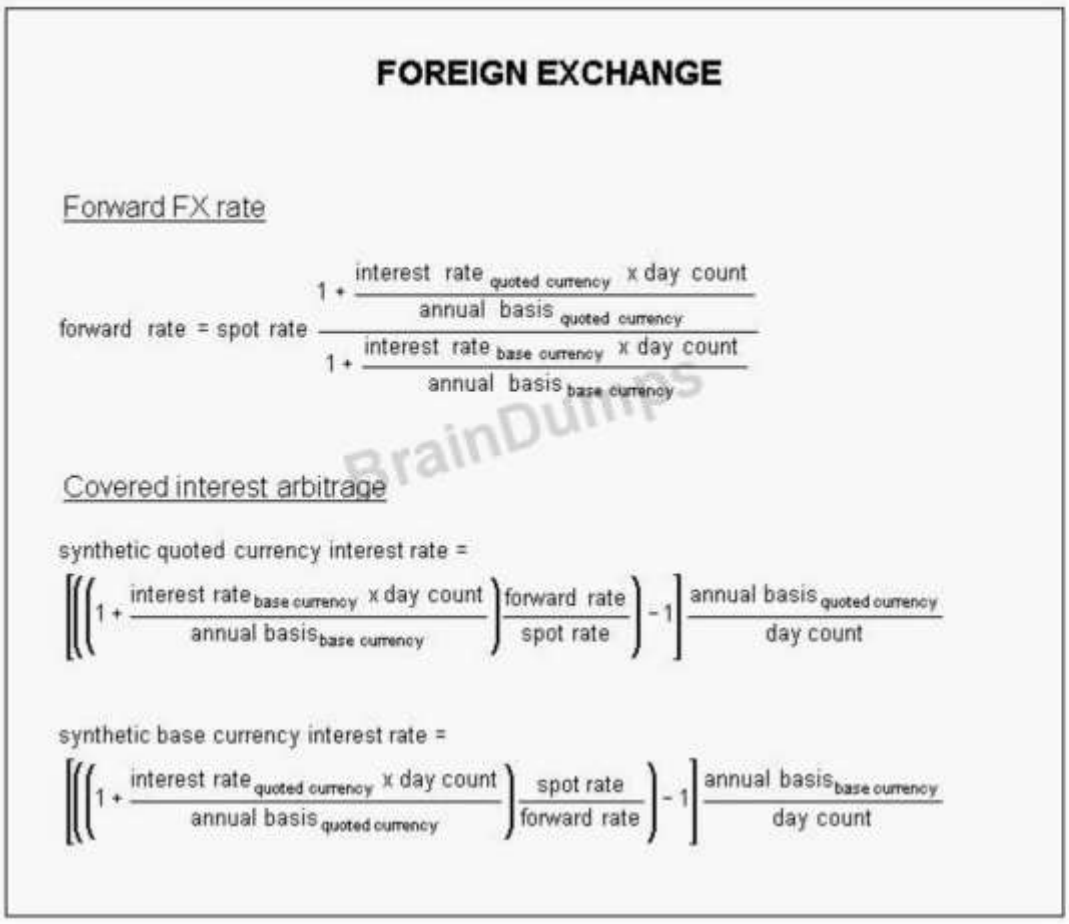
$$\text{Macaulay Duration} = \frac{\left[\begin{array}{l}(\text{present value of first coupon amount}\times\text{time to first coupon})+\\ (\text{present value of second coupon amount}\times\text{time to second coupon})+\ldots\\ +(\text{present value of }(\text{last coupon amount}+\text{nominal amount})\times\text{time to last coupon})\end{array}\right]}{\text{net present value of bond}}$$

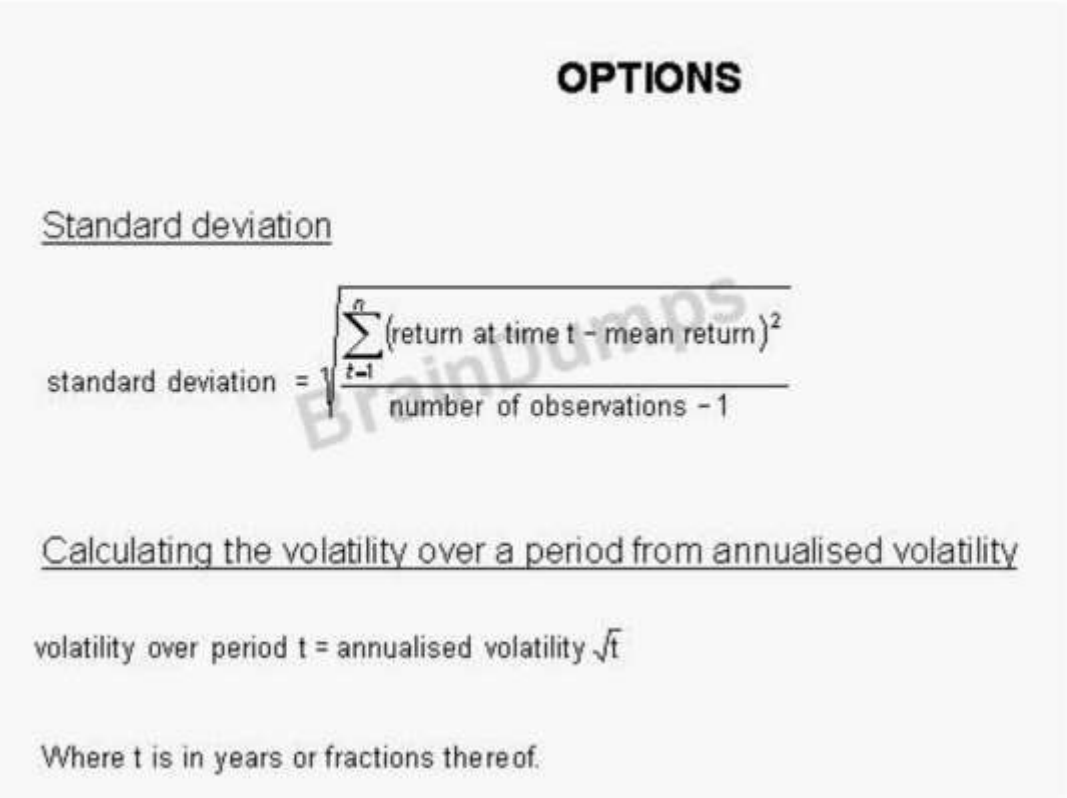
$$\text{Modified Duration} = \frac{\text{Macaulay Duration}}{\left(1+\frac{\text{yield}}{\text{compounding frequency}}\right)}$$

Calculating zero-coupon yield from an annual yield-to-maturity (bootstrapping)

$$\text{zero-coupon yield for n-year term} = \left(\sqrt[n]{\frac{\text{final coupon amount}+\text{nominal amount}}{\text{implied present value of final coupon and nominal amount}}}-1\right)100$$

The implied present value of the final coupon and nominal amount is calculated by subtracting from the net present value of the bond the sum of the present values of all coupons except the final one, where each present value is calculated using the appropriate zero-coupon yield.





A.
USD 124,641,442.43

B.
USD 124,636,476.94

C.

USD 124,635,416.67

D.
USD 123,915,737.30

Answer: B

QUESTION NO: 2

Click on the Exhibit Button to view the Formula Sheet.

What is the day count/annual basis convention for euroyen deposits?

A.
Actual/365

B.
Actual/360

C.
Actual/actual

D.
30E/360

Answer: B

QUESTION NO: 3

Click on the Exhibit Button to view the Formula Sheet. Todays date is Thursday 12th December. What is the spot value date? Assume no bank holidays.

A.
14th December

B.
15th December

C.
16th December

D.
17th December

Answer: C

QUESTION NO: 4

Click on the Exhibit Button to view the Formula Sheet. EURIBOR is the:

A.
Daily fixing of EUR interbank deposit rates in the European market

B.
Daily fixing of EUR interbank deposit rates in the London market

C.
Another name for EUR LIBOR

D.
The ECBs official repo rate

Answer: A

QUESTION NO: 5

Click on the Exhibit Button to view the Formula Sheet. Which of the following rates represents the highest investment yield in the euromarket?

A.
Semi-annual bond yield of 3.75 %

B.
Annual bond yield of 3.75 %

C.
Semi-annual money market yield of 3.75 %

D.
Annual money market rate of 3.75 %

Answer: C

QUESTION NO: 6

Click on the Exhibit Button to view the Formula Sheet. Which of the following are transferable instruments?

A.
Eurocertificate of deposit

B.
US Treasury bill

C.
CP

D.
All of the above

Answer: D