**Financial Markets & Institutions**

**Bond Pricing Exercise**

1) Calculate the Value of the Bonds under the following assumptions:

2) What do you conclude about the relative sensitivity of bond prices to changes in interest rate?

a) Longer maturities relative to shorter maturities?

b) High coupon bonds relative to lower coupon bonds?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Period 1** | **Principal = 1000**  **Initial Market Interest Rate = 8%** | | | |
|  | **Maturity** | | |
|  | **3 Yr** | **8 Yr** | **15 yr** |
| **3% coupon** |  |  |  |
| **8% coupon** | **$1000** | **$1000** | **$1000** |
| **15% coupon** |  |  |  |
|  | | | | |
| **Period 2** | **Market Interest Rate changes to 6%** | | | |
|  | **3 Yr** | **8 Yr** | **15 yr** |
| **3% coupon** |  |  |  |
| **8% coupon** |  |  |  |
| **15% coupon** |  |  |  |
| **% Change in Value from Period 1 to 2** | | | | |
|  |  | **3 Yr** | **8 Yr** | **15 yr** |
| **3% coupon** |  |  |  |
| **8% coupon** |  |  |  |
| **15% coupon** |  |  |  |