

UNIVERSITY OF ROCHESTER

William E. Simon Graduate School of Business Administration

FIN 411
Investments

Professor G. William Schwert
Spring 1997

Case #2 -- Analysis of Bond Yields: due April 30, 1997

Using the data on yields to various coupon bonds, strip bonds, and Treasury bills from the April 5, 1996, *Wall Street Journal*, which are attached to this sheet, calculate:

- (a) the discount term structure (as shown in the handout), and

- (b) using the strip discount term structure, calculate one-year forward rates of interest. You should make these calculations for maturities of 0.5, 1, 1.5, 2, 3, 4, 5, 10, 15, 20, 25, and 30 years to maturity. Also, for maturities 0.5, 1.0, 1.5, and 2 years, use coupon yield (and price) data to estimate the discount term structure (this exercise will require some thought). Compare your estimates with the estimates from strip securities.

- (c) Comment on the shape of the term structure. What, if anything, do you think it implies about future investment opportunities and/or inflation? *Why?*

You should do this assignment in groups and prepare a concise report that explains your analysis and findings. Neat, coherent presentation of high-quality analysis is the goal of this assignment. Do not include lots of computer output (although you may copy small portions of output that include relevant statistics).

