Arbitrage Projects: Due May 29, 1997

These projects are to be completed by your study group of between 3-5 people. A report of no more than 10 typed pages is due in class on Thursday, May 29. You may include high quality, neat, and concise supporting material in an appendix that may get evaluated when we grade the reports (depending on the communication value of the material). We will pick two groups for each of the four projects to make short (about 7 minute) presentations during class on Tuesday, June 4. Your grade on the project will be 80% on the report and 20% on the presentation, if you are picked. It will be 100% on the report if you are not picked to present. You should submit an intermediate report of approximately one page in class on Tuesday May 6 so that we can give you feedback on the progress of your work. This project, along with the “grading cash” from the FTS labs, represents the main basis for your grade in this portion of FIN 434, so you should treat it as a serious assignment.

Situations

There are four different projects that will be randomly assigned to different study groups in class on Thursday April 4:

- **Kodak Insurance**: design a strategy to reduce the exposure to firm-specific risk for a Kodak employee with wages, employee stock options, and 401K investments that cannot be sold.
• **Bond refinancing**: evaluate and recommend a decision about calling an existing debenture in July 1997 and refinancing it at current, lower interest rates. Also, evaluate the cost and wisdom of protecting against changes in long-term interest rates between now and the time when the call and refinancing could occur.

• **Portfolio Insurance**: evaluate several different strategies for putting a lower bound on the returns that will be realized from a portfolio that currently contains many stocks over the near future.

• **Index fund**: consider several different strategies for creating and managing an “index fund” of stocks. Recommend the most cost-effective strategy.