Review Questions: Bond Valuation

1. You want to determine the price of a 2-year bond, $1000 par value, 8% coupon with semi-annual coupon payments (starting 6 months from today). It's now September 2010. You have only partial discount rate information, but you have supplemental Treasury-strip data available. This information is located in the table below, with the discount rates quoted as APRs with semi-annually compounding. What should be the price of this bond?

	APR	T-strip price
Oct. 2010	2.5%	
Jan. 2011	3%	
Mar. 2011		96:20
Aug. 2011		96:04
Sept. 2011		94:12
Jan. 2012		93:17
Mar. 2012	4.8%	
Aug. 2012	5%	
Sept. 2012	5.1%	

2. Estimate the YTM of this bond to within 0.1%. Explain your reasoning.