

If a question asks “why/explain”, you should give a full explanation that would convince a skeptic.

Name: _____
(also write your name on the back)

Finance 325: Quiz #2
October 14, 2010

1. It is now October 2010. You are looking to price a bond that matures in October 2013. The bond is \$1,000 par value, 8% coupon with annual coupon payments. The next coupon payment occurs in 1 year. You have the following discount rate and T-Strip data (located in the table below). The discount rates are quoted as APRs, compounded semi-annually. What is the price of the bond? (3 pts)

	APR	T-strip
January 2011	3.7%	
April 2011	4.0%	
October 2011	4.2%	
June 2012		92:27
October 2012		91:04
December 2012		90:01
July 2013	5.0%	
October 2013	5.3%	

2. The WSJ, given the success of the weekend edition, is looking into starting its own monthly magazine. It will cost them \$80 million today and \$70 million next year to develop this magazine. The magazine will generate \$15 million in CFs per year into perpetuity starting in 3 years, but will decrease the CFs from the WSJ newspaper by \$3 million per year into perpetuity. If the discount rate is 8%, should the WSJ start the magazine? (4 pts)
3. In finance, we measure cash flows when determining the value of an investment. Depreciation is not a cash flow, but we do not ignore depreciation when we calculate the free cash flows from an investment. Explain why we account for depreciation in our analysis. (3 pts)