

Unit 7 Assignment: Bond Valuations

Due Date: 11:59 pm EST Sunday of Unit 7

Points: 100

Overview:

In this assignment, you will apply the principles used in calculating the price of a bond.

Instructions:

The yield of the 10-year US Treasury bond is 1.20%. It is the risk-free rate. You work for investment manager and your boss asks you to calculate the price of a 10-year corporate bond that yields 3.00% more than its risk-free rate and has a face value of \$1,000. The fixed coupon of this corporate bond is 5.00%. Both bonds pay coupons annually.

- What is the current price of the corporate bond?
- Calculate the price of the bond if its yield *increased* by 1.00%.
- Calculate the price of the bond if its yield *decreased* by 1.00%.
- Please discuss the risk associated with this change in interest rates?

Requirements:

- Submit a Word document or Excel spreadsheet.
- At least three pages in length, excluding the Title and Reference pages.

Be sure to read the criteria below by which your work will be evaluated before you write and again after you write.

Evaluation Rubric for Unit 7 Assignment

CRITERIA	Deficient	Needs Improvement	Proficient	Exemplary
	0 – 11 points	12 – 15 points	16 – 19 points	20 points
Current price of a corporate bond	The bond's current price calculations are missing or incorrect.	The bond's current price is calculated but is missing key details.	The bond price is calculated but is missing minor details.	The bond's current price is accurate and is calculated correctly.
Cost if yield increases by 1.00%	The bond's price calculations are missing or incorrect.	The bond's price is calculated but is missing key details.	The bond's price is calculated but is missing minor details.	The bond's price is accurate and is calculated correctly.
Cost if yield decreases by 1.00%	The bond's price calculations are missing or incorrect.	The bond's price is calculated but is missing key details.	The bond's price is calculated but is missing minor details.	The bond's price is accurate and is calculated correctly.
Discussion on risk and interest rates in bonds	The discussion on risk and interest rates is missing or incorrect.	A discussion on risk and interest rates is present but missing key details.	A discussion on risk and interest rates is present but is missing minor details.	The discussion on risk and interest rates is thoughtfully and accurately addressed.
	0 – 5 points	6 – 7 points	8 – 9 points	10 points
Paper Length	Less than 3 pages	n/a	n/a	3 pages or more.
Clear and Professional Writing and APA Format	Errors impede professional presentation; guidelines not followed.	Significant errors that do not impede professional presentation.	Few errors that do not impede professional presentation.	Writing and format are clear, professional, APA compliant, and error free.