

Chapter 6: Bonds and other Securities

Section 6.6: Determination of Yield Rates.

One method to approximate the calculation of the yield rate is to use the bond salesman's method. This can be found in your textbook on page 220, **if** you are interested. The other method is to use the financial calculator to get the exact yield.

Example: A 20 year bond with 8% semiannual coupons and a face amount of 100 is quoted at a purchase price of 70.400.

A) Find the yield rate.

B) Suppose that the bond was issued Jan 15, 2000, and is bought by a new purchaser for a price of 112.225 on Jan. 15, 2005, just after a coupon has been paid.

(i) Find the yield rate for the new purchaser.

(ii) Find the yield rate earned by the original bond holder.

(c) Repeat part (i) of part (b) if the bond is sold on April 1, 2005 with a market price of 112.225