

Review for 11-01-16

Spot Rate: S_t for a return at time t

$$NPV = \sum_{t=0}^n \left(\frac{1}{1+S_t} \right)^t R_t$$

Yield - find a constant yield rate consistent with the use of spot rates

One-Year Implied Forward Rate

$$(1+S_{n-1})^{n-1} (1+f_{n-1}) = (1+S_n)^n$$

from $n-1$ to n

t -Year Deferred m -year forward rate

$$(1+S_t)^t (1+{}_m f_t)^m = (1+S_{t+m})^{t+m}$$

Spot Rates from one-year forward rates

$$(1+S_n)^n = \prod_{t=0}^{n-1} (1+f_t)$$

