Third Exam Topic List

Bonds:
Price Formulas (4) – names and their use
Bought at premium or at discount
Book value of a bond and amortization of coupons (how much toward interest/principal)
Finding the yield of a bond– by definition and on a financial calculator
Callable bonds – what are they and pricing strategy

Yield Rates:
Returns description of cash flow – be able to find NPV
Solving for IRR – by definition and on a financial calculator
Reinvestment of payments at a different interest rate – find solution for overall yield
Fund performance – (a) dollar weighted under simple interest (b) time weighted [difference in emphasis in (a) vs (b)]
Allocation to individual accounts – portfolio method

Inflation:
Quantifying its effects – net growth rate, description, incorporation in analysis

Interest Structures:
Yield curve – spot rates – NPV – overall yield
Finding spot rates from zero coupon bond prices or coupon bond prices
At par yield – be able to find
Forward rates – what are they? Be able to change spot rates to forward rates and forward rates to spot rates
Be able to find k year deferred m-year forward rates

Properties of NPV Function:
Average Time (Method of Equated Time) – Duration – Volatility
Be able to compute each of these three – interpretation of each (what does each measure)