Consider the following bond portfolio:

Bond Value Maturity Coupon Yield

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A $300 million 3 years 0% 10%

B 300 4 6 10

C 400 8 0 10

1. What is the bond portfolio's duration?

= 0.3\*3+0.3\*3.65+0.4\*8

= 5.195

The duration of bond portfolio is 5.2 years

1. Calculate the capital loss on this portfolio if the yield increases from 10 to 12 percent.

c) Suppose the portfolio is to be immunized over an investment horizon of approximately 5.19 years. Determine the market value of the immunized portfolio at the end of 5.19 years.

1. Draw the profit line for each of the following individuals, assuming S = $100, E = $100, and C = P = $10 in all cases, unless otherwise stated:

The person who buys a call and sells another call with a higher exercise price on the same stock.

Insert graph with points known.