

3. The Altoona Company issued a 25-year bond five years ago with a face value of \$1,000. The bond pays interest semiannually at a 10% annual rate.

a. What is the bond's price today if the interest rate on comparable new issues is 12%?

b. What is the price today if the interest rate is 8%?

c. Explain the results of parts (a) and (b) in terms of opportunities available to investors.

- d. What is the price today if the interest rate is 10%?
- e. Comment on the answer to part (d).