Discussion 2

Assume interest rates for bonds today is 5% for an AAA rated bond. Calculate the price of the bond you have selected relative to the 5%.

FEDERAL HOME LN MTG CORP MTN issues bonds with coupons.

Price \$112.62   Coupon 5.680%   YTM 4.369%   CYield 5.043%
Callable

$$PVo = \frac{(\text{coupon})\,(1 - [1/(1+r)^m])}{R} + \frac{(\text{par value})}{(1+r)^m}$$

$$PVo = \frac{(\$56.80)\,(1 - [1/(1+.05)^{30}])}{.05} + \frac{(\$1{,}000)}{(1+.05)^{30}}$$

$$PVo = \frac{(\$56.80)\,(1 - [1/(1.05)^{30}])}{.05} + \frac{(\$1{,}000)}{(1.05)^{30}}$$

$$PVo = \frac{(\$56.80)\,(1 - [1/4.32194237515])}{.05} + \frac{(\$1{,}000)}{4.32194237515}$$

$$PVo = \frac{(\$56.80)\,(1 - .2313774486558936)}{.05} + 231.3774486558936$$

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$$PVo = \frac{(\$56.80)(0.768225513441064)}{.05} + 231.3774486558936$$

$$PVo = \frac{43.63520916345244}{.05} + 231.3774486558936$$

$$PVo = 872.7041832690487 + 231.3774486558936$$

$$\underline{PVo = \quad \$1,104.08}$$

Is the bond selling at a premium or a discount? Why? Be sure to show how you arrived at your answer.

Using calculations relating to 5% - this bond is selling above premium ($1,104.08 > $1,000).

What other factors may influence the value of a bond?

Certain factors that could possibly influence the value of a bond are their credit ratings. AAA interest are a better valuation of a bond because of the fact that it is a higher credit rating than the other credit ratings out there, followed by economic situations and inflation.