

Premium

(5-6)

Maturity Risk
Premium

the default risk premium on the corporate bond?

The real risk-free rate is 3%, and inflation is expected to be 3% for the next 2 years. A 2-year Treasury security yields 6.3%. What is the maturity risk premium for the 2-year security?

(5-12)
Bond Yields and
Rates of Return

A 10-year, 12% semiannual coupon bond with a par value of \$1,000 may be called in 4 years at a call price of \$1,060. The bond sells for \$1,100. (Assume that the bond has just been issued.)

- What is the bond's yield to maturity?
- What is the bond's current yield?
- What is the bond's capital gain or loss yield?
- What is the bond's yield to call?

(5-13)

You just purchased a 10-year, 12% semiannual coupon bond with a par value of \$1,000. The bond sells for \$1,100. (Assume that the bond has just been issued.)

the difference in
 MRP_5 minus MRP_2 ?

(5-20)
Inflation Risk
Premiums

Because of a recession, the inflation rate expected for the coming year is only 3%. However, the inflation rate in Year 2 and thereafter is expected to be constant at some level above 3%. Assume that the real risk-free rate is $r^* = 2\%$ for all maturities and that there are no maturity premiums. If 3-year Treasury notes yield 2 percentage points more than 1-year notes, what inflation rate is expected after Year 1?