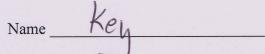
Quiz A for 4:00 Cla	ass: 8/27/12
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Assume that you can borrow or lend at a risk-free interest rate of 4.5% per year. Assume also that the bid and ask prices for a risk-free bond that matures one year from today for \$8000 are as follows: Bid = \$7599, Ask = \$7601. What set of transactions today will generate an arbitrage profit for you today. In your answer list all transactions required today and a year from today and all individual and total cash flows today and a year from today. Use a "+" for an inflow of cash and a "-"for an outflow of cash. Note: I recommend setting up a table like is in the notes, but this is not required.

Wall Street Journal Questions are on the back of this page.

PV = (8000 = >655.50

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Ho Bonow PV +7655.50 +08000 +10 Pag offon loan

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