

Quiz: 1/18/12

Name & Class Time _____

Assume the risk-free interest rate is 3% and that a risk-free bond that pays \$1000 one year from today trades for \$980.

- a. Calculate the no-arbitrage price for the bond.
- b. What set of transactions today will generate an arbitrage profit today?
- c. What individual and total cash flow will these transactions create today and a year from today?
- d. What “events” will create the individual cash flows one year from today?