

94.00

Quiz A for 2:30 Class: 1/23/13

Name Key

Given the following information you have collected on two risk-free bonds, what set of transactions today will generate an arbitrage profit for you today. In your answer list all transactions required today and two years from today and all individual and total cash flows today, one year from today, and two years 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.

Bond	Prices today		Payment in:	
	Bid	Ask	One year	Two years
A	\$183	\$184	\$100	\$100
B	\$361	\$363	\$200	\$200
2A	366	368	200	200

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

<p>Trans</p> <p><u>+5</u></p> <p>Buy B</p> <p><u>+5</u></p> <p>Short 2A</p> <hr/> <p>Total</p>	<p>CF₀</p> <p><u>+5</u></p> <p>-363</p> <p><u>+5</u></p> <p>+366</p> <hr/> <p>+3⁺⁵</p>	<table border="0"> <tr> <td style="text-align: center;">CF₁</td> <td style="text-align: center;">CF₂</td> </tr> <tr> <td style="text-align: center;"><u>+5</u></td> <td style="text-align: center;"><u>+5</u></td> </tr> <tr> <td style="text-align: center;">+200</td> <td style="text-align: center;">+200</td> </tr> <tr> <td style="text-align: center;"><u>+5</u></td> <td style="text-align: center;"><u>+5</u></td> </tr> <tr> <td style="text-align: center;">-200</td> <td style="text-align: center;">-200</td> </tr> <tr> <td style="text-align: center;"><u>+5</u></td> <td style="text-align: center;"><u>+5</u></td> </tr> <tr> <td style="text-align: center;">∅</td> <td style="text-align: center;">∅</td> </tr> <tr> <td style="text-align: center;"><u>+5</u></td> <td></td> </tr> </table>	CF ₁	CF ₂	<u>+5</u>	<u>+5</u>	+200	+200	<u>+5</u>	<u>+5</u>	-200	-200	<u>+5</u>	<u>+5</u>	∅	∅	<u>+5</u>		<p>Trans</p> <p><u>+5</u></p> <p>Bond matures</p> <p>make up cashflow or</p> <p>buy back bond</p>
CF ₁	CF ₂																		
<u>+5</u>	<u>+5</u>																		
+200	+200																		
<u>+5</u>	<u>+5</u>																		
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<u>+5</u>	<u>+5</u>																		
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