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Quiz B 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	\$371	\$373	\$200	\$200
2A	366	368	200	200

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

Trans	CF <sub>0</sub>	CF <sub>1</sub>	CF <sub>2</sub>	Trans
Buy 2A <sup>+5</sup>	-368 <sup>+5</sup>	+200 <sup>-15</sup>	+200	Bonds matures <sup>+5</sup>
Short B <sup>+5</sup>	+371 <sup>+5</sup>	-200 <sup>+5</sup>	-200	Buy back bond or <sup>+5</sup>
Total	<del>4</del> +3 <sup>+5</sup>	∅	∅	make up CF

+5