

Quiz A for 1:00 Class: 1/23/13

Name _____

Assume two risk-free bonds will each pay \$2000 one year from today. However, the return on Bond A is 6.5% and the return on Bond B is 7.5%. 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.