

Quiz A for 2:30 & 4:00 Classes: 1/23/13

Name _____

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. In solving the problem, assume there are multiple bonds available to trade at both the bid and ask prices. 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.

<u>Bond</u>	<u>Prices today</u>		<u>Payment in:</u>	
	<u>Bid</u>	<u>Ask</u>	<u>One year</u>	<u>Two years</u>
A	\$183	\$184	\$100	\$100
B	\$361	\$363	\$200	\$200

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