Universidad del Desarrollo
Universidad de Excelencia

Finance I
Fall 2012

Session 22:
Bond Valuation

1. Quick Recap

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- **Preparation for the test**

2. Bond Valuation

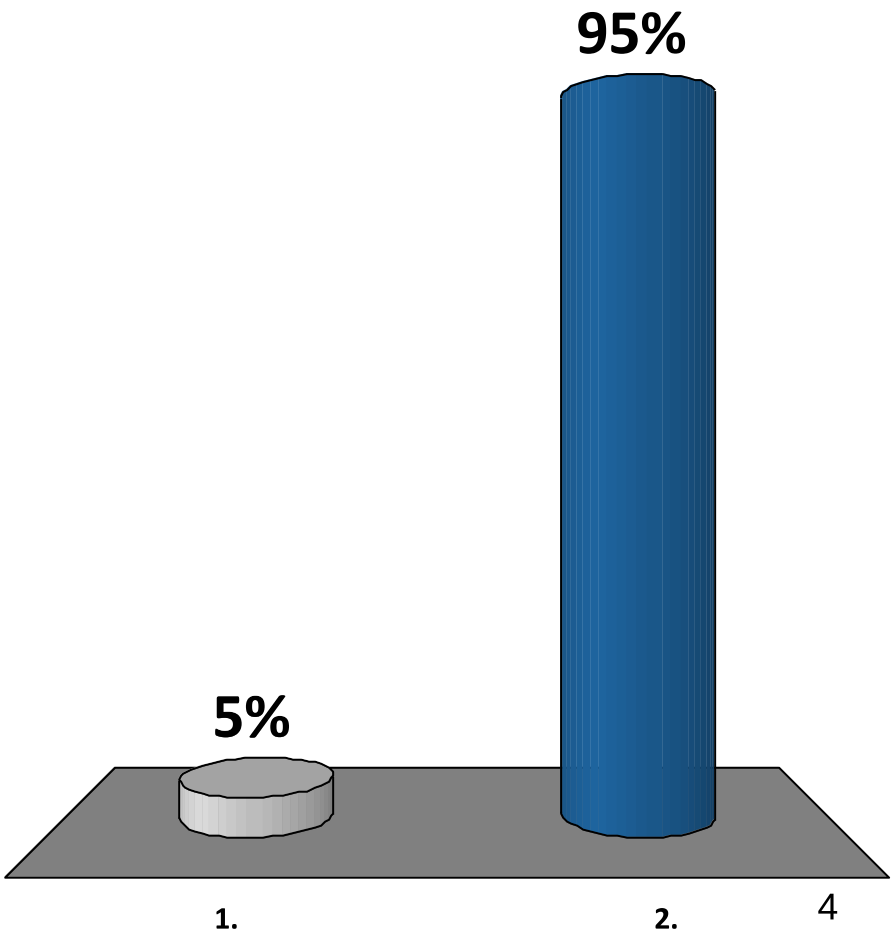
- **Applies to Fixed Income securities**
- **We'll define a bond as a fixed income security**
  - Contract that pays a predetermined amount at predefined dates in the future
  - "Coupon" is the amount paid in each period
  - "Face value" is the amount paid in addition to the coupon at the end of the contract
  - "Maturity" is the length of time before the end of the contract
  - "Frequency" of payments determines how frequent will be the coupon payments

Examples:

- 3 year maturity, annual coupon at 5%, face value of $100
- 5 year, quarterly coupon of 1.25, face value of $100
- 5 year zero coupon, face value of $100

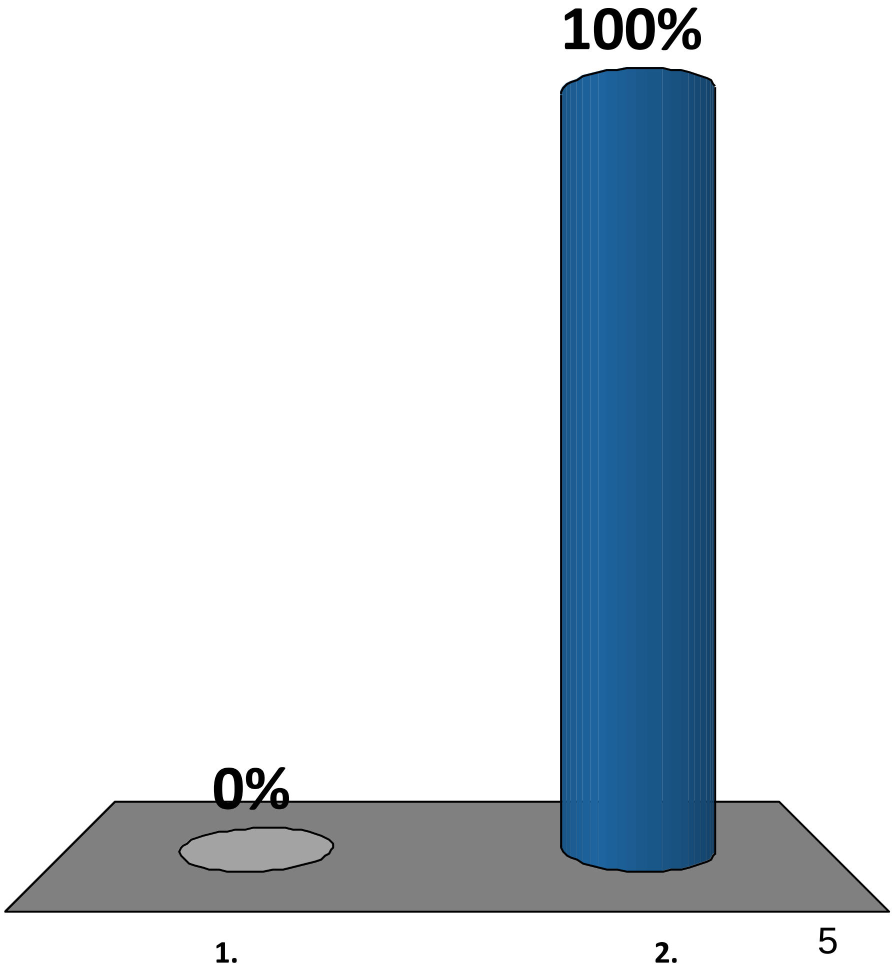
A company should always have extra cash

1. True
2. False



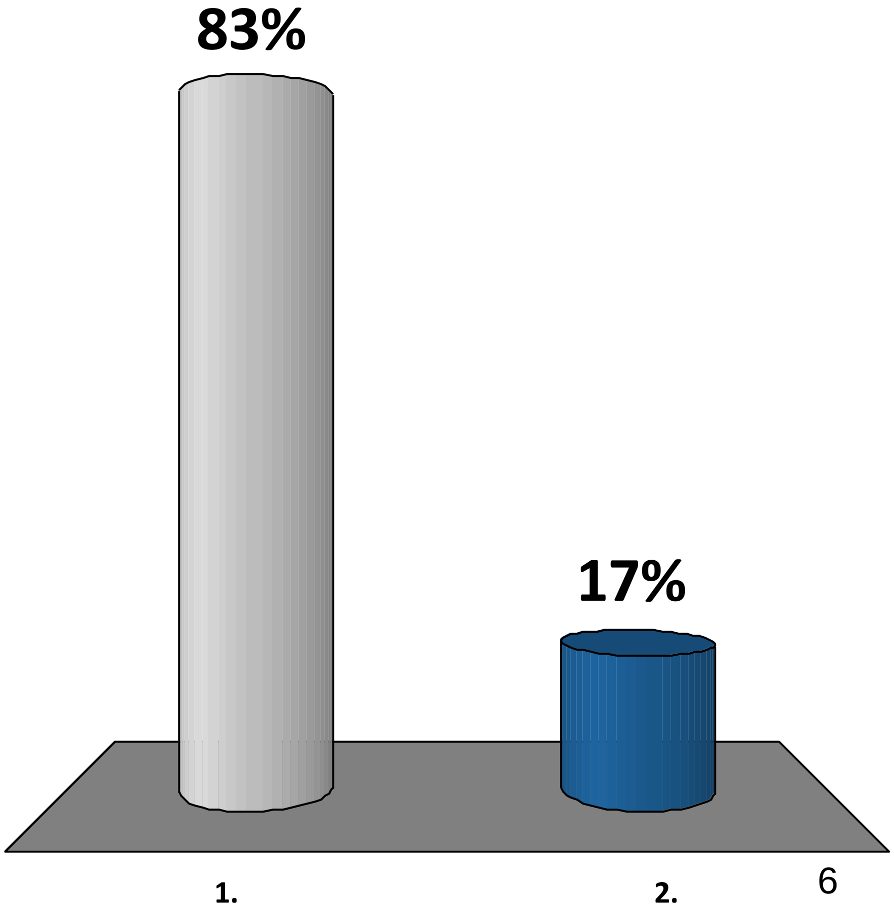
A company should never aim to increase it's working capital

1. True
2. False



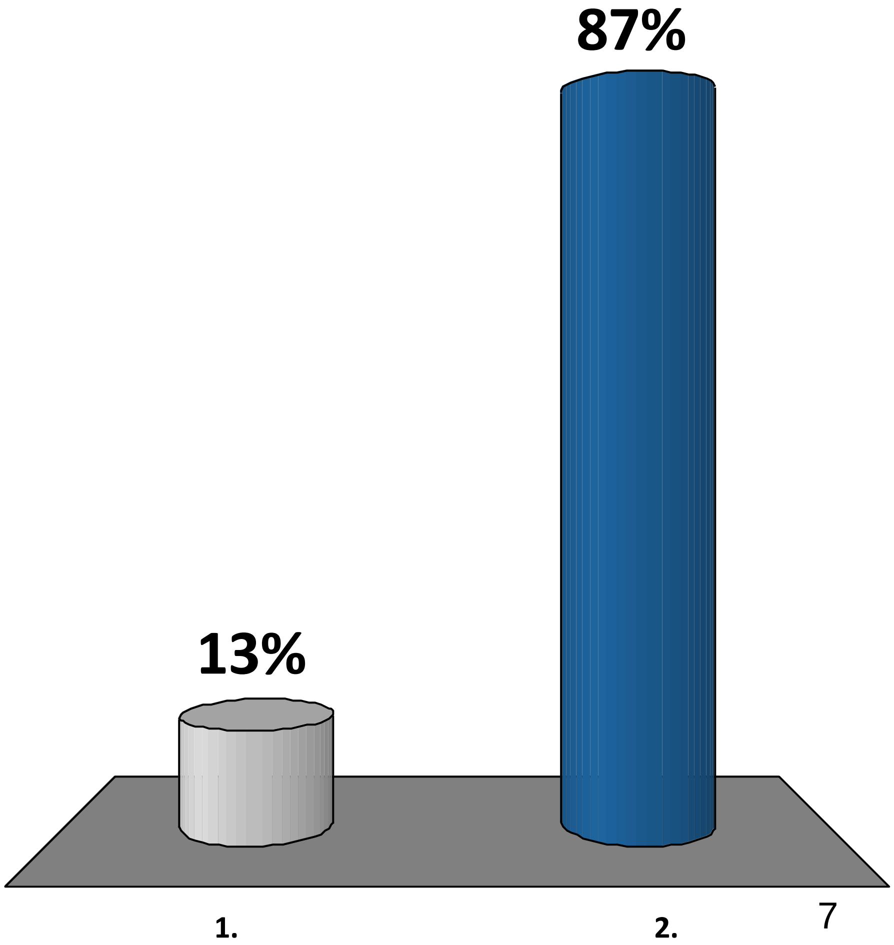
Fixed income bonds pay the same amount (*coupon*) every period

1. True
2. False



Fixed income bonds are worth the same amount (*price*) every period

1. True
2. False



If the risk free rate falls, fixed income bonds become more valuable (have a higher *price*)

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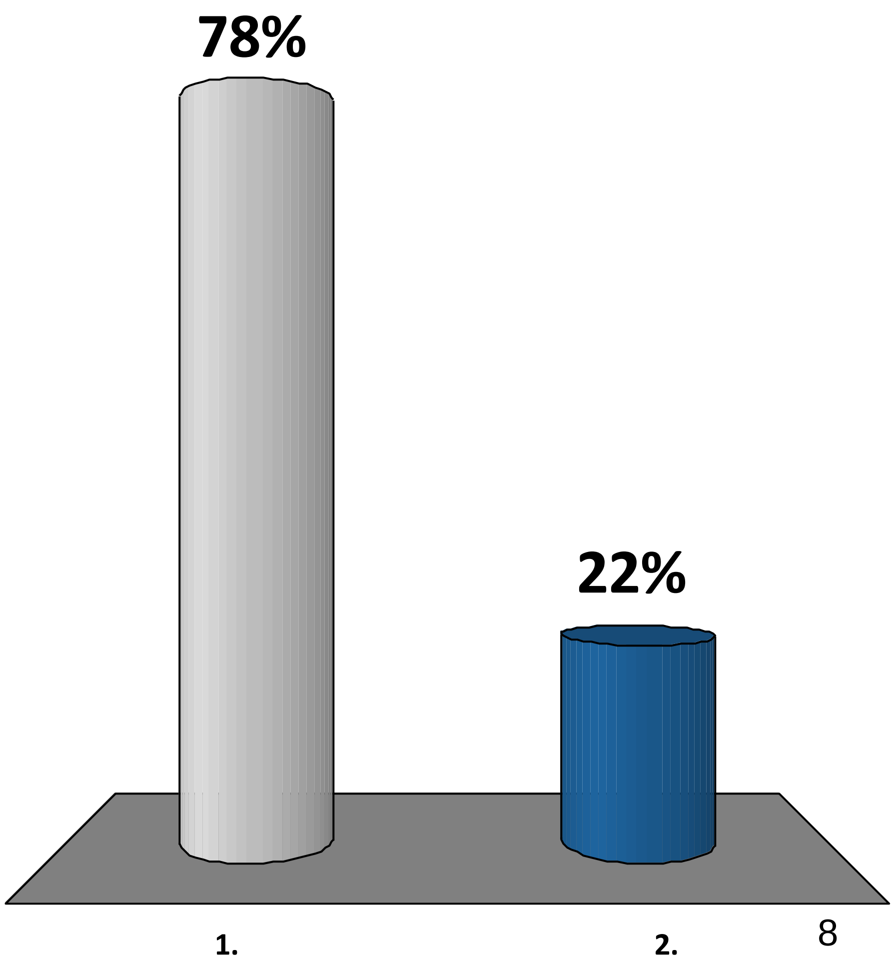
1. True
2. False



The *face value* of a bond is always less than its Net Present Value

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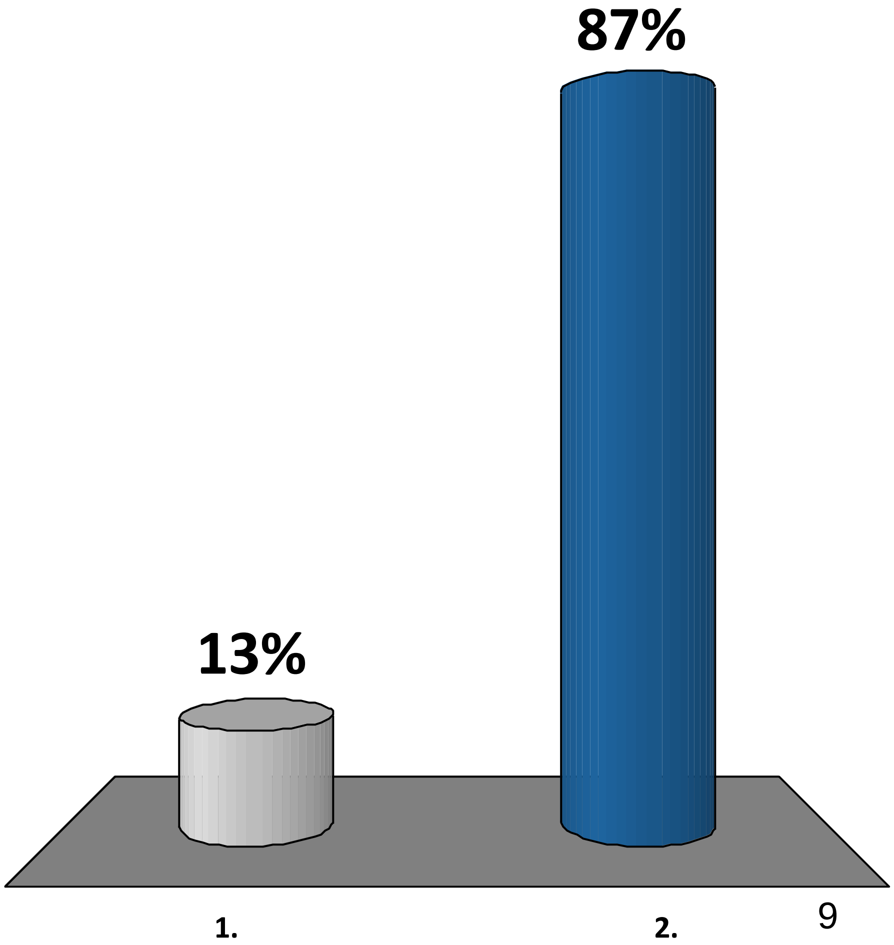
1. True
2. False



If the yield of the bond is higher than it's coupon, you will loose money if you buy it

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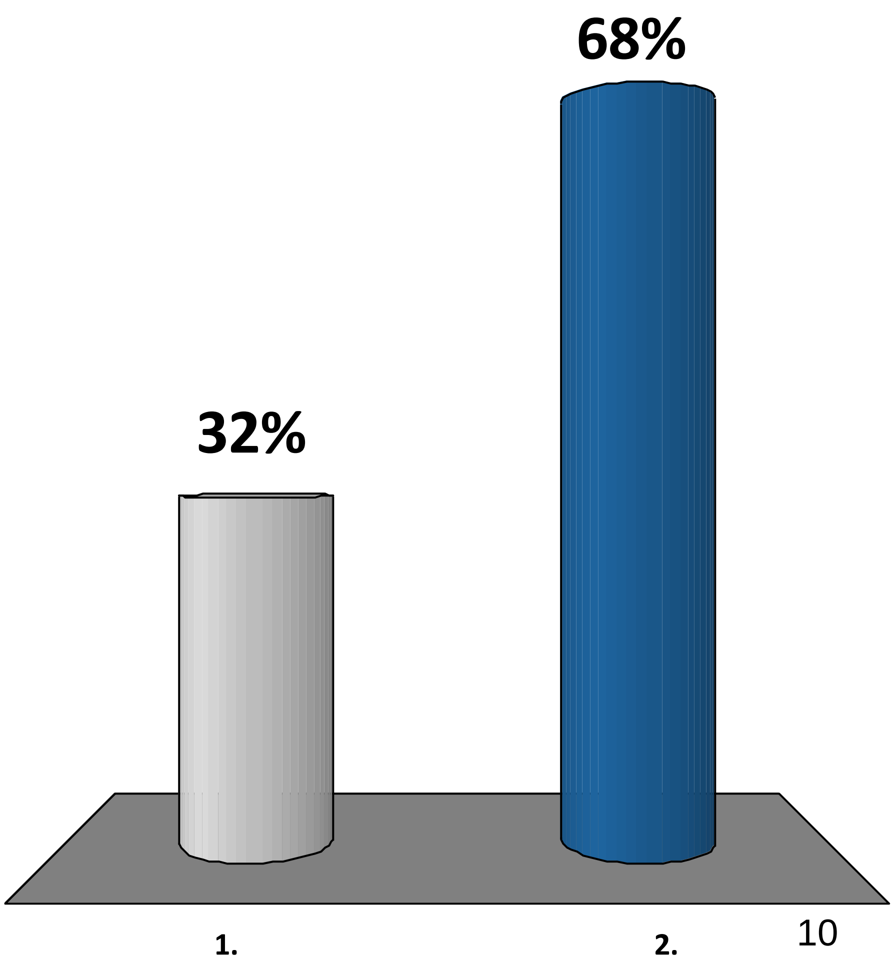
1. True
2. False



If the yield of the bond is higher than it's cost of opportunity, you will make money if you buy it

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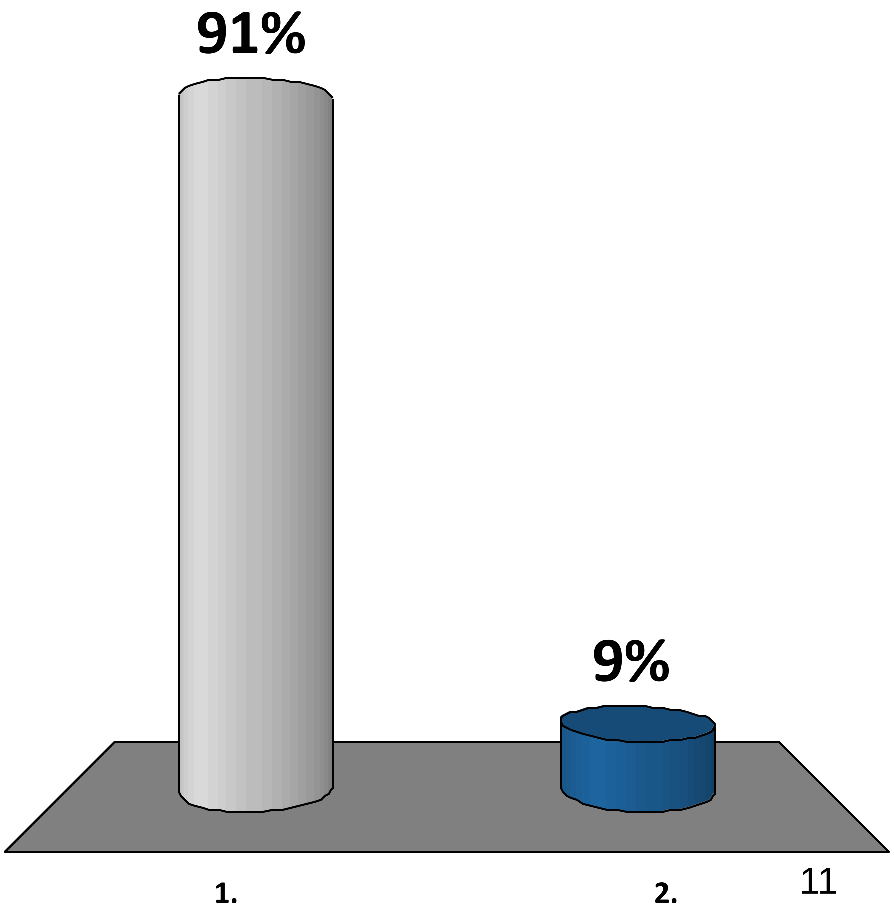
1. True
2. False



2. Closing

- **Next TA Session:**
  - More NPV exercises
  - Duration

- **Next class:**
  - Term structure of interest rates

- **Quiz 7 on Wednesday. BRING YOUR CALCULATOR**