

# *Chapter 11*

## *Homework Assignment*

You have just purchased a newly issued municipal bond for \$1000. The bond pays \$50 to its holder at the end of the first and second years and pays \$1200 upon its maturity at the end of the third year.

1. What are the principle amount, the term, the coupon rate, and the coupon payment for your bond?
2. If you decide to sell your bond at the end of 2 years (after receiving the second \$50 payment), what price can you expect if the one-year interest rate is 5%?

### **Key**

1. principle amount = \$1000  
term = 3 years  
coupon rate = 5%  
coupon payment = \$50
2.  $1200/1.05 = \$1142.86$