

Finance 30220
Quiz #5

Name _____

Section _____

1) Consider the following data:

Date	1 Year T-Bill Yield (BEY)	Consumer Price Index
Dec 2004	2.43%	191.7
Dec 2005	4.18%	198.2
Dec 2006	4.88%	206.3
Dec 2007	3.23%	211.68
Dec 2008	.26%	211.49

a) Assuming a zero liquidity premium, construct a yield curve for 2006. (i.e. calculate three spot rates).

$$i_1 = 4.88\%$$

$$[(1.0488)(1.0323)]^{\frac{1}{2}} = 1.0405 \Rightarrow i_2 = 4.05\%$$

$$[(1.0488)(1.0323)(1.0026)]^{\frac{1}{3}} = 1.0277 \Rightarrow i_3 = 2.77\%$$

b) Calculate the 2008 price of a \$1,000, 180 day T-Bill. (Assume that the annualized 180 Day T-Bill rate is the same as the current 1 year Treasury yield).

First, we need the 180 day (1/2 year) interest rate)

$$.26/2 = .13$$

Now,

$$\frac{\$1000}{1.0013} = \$998.70$$