Finance 510-A

Problem Set to prepare for Quiz 1

1. Consider a one-year Treasury Bill that sells for 96.5, and matures in one year.
   (a) Suppose you buy \$30,000 par value of this note:
      i. What is your cash outflow today?
      ii. How much will this be worth on maturity?
   (b) What is the annually-compounded yield-to-maturity on this bill?
   (c) Suppose a bank offers an FDIC-insured CD with monthly compounded interest. What monthly-compounded rate would make you indifferent between the CD and this note?
   (d) Suppose a bank offers an FDIC-insured CD with continuously compounded interest. What continuously-compounded rate would make you indifferent between the CD and this note?
2. Consider a six-month Treasury Bill (that matures in 6 months), that has a bond equivalent yield-to-maturity of 3.75%. What is the price of this bill?
3. Suppose that the one-year Treasury Bill has a bond-equivalent yield-to-maturity of 1.65%. You want to buy bills today that will be worth \$25,000 in one year. How much money will you have to invest in the one-year bill today to achieve your goal?