

FIN 533 Homework
Due Tuesday, October 20, 2009

Read “Realized Compound Return versus Yield to Maturity” on page 307 in your text in preparation for working this problem.

You purchase a newly issued 20-year, 9% annual coupon bond at a yield to maturity of 10 percent. Each year you reinvest the coupon interest at the predicted one-year reinvestment rate shown in the table below. You sell the bond after holding it for three years at a yield to maturity of 8.5 percent. Assuming annual compounding and annual coupon payments, what is your realized compound yield on the bond?

Time	Prevailing one-year Reinvestment Rate
0 (purchase date)	8.2%
1	9.4%
2	7.2%
3 (sell date)	7.0%