1. Consider a 3% coupon Treasury bond with exactly 2 years to maturity. Coupons are paid semi-annually. The 6-month rate on the yield-curve is 0.4% APR, the 1-year rate on the yield-curve is 0.6% APR, the price for a 1.5 year STRIP is $98.50, and the 2-year rate is 1.2% APR. All APRs are semi-annually compounded. What is the price of the bond? [2]


3. You are thinking about buying a 2-year zero coupon corporate bond, priced at $750. Its par value is $1000, but after evaluating the credit risk of the company, you calculate your expected cash flow to be $920. What is your expected return from buying this bond? [2]