VALUING BONDS

• Guiding idea: the interest rate as a market price
  – determined in bond markets
  – hence PV as a “quasi-”market price

Bonds

• cash flows associated with bonds
• bond prices define interest rates – interest rates inferred from bond prices

• **Yield to Maturity** as the interest rate associated with bond
  – solves $p_B = PV(r_B)$
  – solution methods

• special cases:
  – 1. perpetuity
  2. zero-coupon bonds
    * spot rates
    * yield curve/
      term structure of interest rates.

• generalized definition of Present Value