

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