**Quiz Problems for Chapters 8-9**

1. Raines Umbrella Corp. issued 12-year bonds two years ago with a coupon rate of 8.6 percent. If these bonds currently sell at a price of 97, what is their YTM?
2. How much money will it cost you to purchase a $10,000 Treasury bond from a bond dealer who quotes prices of 105:23 and 105:24?
3. You purchased a 10-year Treasury note at par value immediately after it was issued two years ago. The note has a coupon rate of 6 percent and a face value of $1,000. Today, similar bonds with similar maturities are being issued at par with a 5 percent coupon rate. You want to sell your bond. What should its price be?
4. A Treasury bond is priced at 101:12. It was issued exactly 15 years ago and is due to mature exactly 15 years from today. Its coupon rate is 7.5 percent and you received your most recent coupon payment earlier today. What is the yield to maturity on this bond?

1. Bond A has a face value of $1,000, makes semiannual coupon payments of $30 and will mature in 7 years. It currently sells for $949.63. Bond B is a corporate bond whose price is quoted at 109.98 this afternoon. It will mature in exactly 15 years. Bonds A and B are priced so that they each have the same yield. What is the YTM for these two bonds, and what is the coupon rate for Bond B?
2. Paul’s Pepperoni Pizza Palace is prepared to pay a dividend of $2 per share to all stockholders tomorrow. Paul’s then presumes that its dividends will progress at a precise pace of 20 percent per year for the next four years. Following this primary period of proper promotion, they project that the dividend will progress at a rate of 7 percent permanently. What do you predict is the price of a share of Paul’s Pepperoni Pizza Palace stock if investors prefer a performance of 10 percent?
3. As a research analyst for a major investment bank, it is your job to determine the one-year target price of the stocks you cover. In other words, based on your calculations, you are to determine what the price of a stock should be one year from today. As you study Home Depot, you notice that it paid a dividend of $1.50 per share yesterday. You expect Home Depot’s dividends to grow at a rate of 20 percent for the next three years, and then to settle down to a long-term growth rate of 5% for the forseeable future. If investors require an 11% return for owning shares of Home Depot, what should the stock price be a year from now?
4. Master Fins is a new seafood restaurant chain that is planning to issue shares of common stock for the very first time (an initial public offering). You have carefully analyzed Master Fins’ financial statements and have come up with the following projections: Free Cash Flow next year of $2 million; Free Cash Flow the following year of $2.5 million; After that, a constant growth rate of 4 percent per year forever. The required rate of return is 10 percent. The market value of the firm’s debt is $3 million. Master Fins has 1.5 million shares of common stock outstanding. Use the Free Cash Flow approach to determine the appropriate price per share of Master Fins common stock.
5. Starting today, you plan to begin investing $700 per month into your retirement plan at work. You plan to continue doing this every month up to the time you retire; 35 years from today. The first contribution to your retirement account will be made today. The last contribution to your retirement account will be made on the day you retire. You expect to earn 8 percent per year on your investments and expect inflation to be 2.5 percent per year (both figures are APR with monthly compounding). How much money do you expect to have when you retire – in nominal dollars, and in real dollars?
6. Runner’s World Magazine has issued a 20-year bond with a face value of $20,000. This bond makes no payments for the first six years, then pays $1,200 every six months for the next eight years, and finally pays $1,500 every six months over the last six years. If the yield on the bond is 10 percent, what is its price?