MIT Sloan School of Management

J. Wang 15.407
E52-456 Fall 2003

Midterm 2002

Answers to 1(d) and 1(f)

1(d): Uncertain: In terms of riskless bonds, higher yield to maturity means higher average returns. However for risky bonds that does not need to be true, although that will generally hold. For example, if a company is almost certain to default on its payment, you actual return is probably quite low although the YTM will be really high.

1(e) False: The market price of a share of stock equals the discounted value of the stream of future dividends per share, using the appropriate discount rate.

1(f) False: If the net convenience yield is higher than the riskless interest rate, the future price will exhibit backwardation.