

EXAM FM QUESTIONS OF THE WEEK

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Week of October 30/06

Bond A has the following characteristics:

- face amount 100
- price of 79.87
- Macaulay duration of 7.85 years

Bond B has the following characteristics:

- face amount 100
- price of 55.74

Which of the following could be the Macaulay duration of Bond B, and the Macaulay duration of the combined portfolio of Bond A and Bond B?

	Bond B	Portfolio of Bond A and Bond B
A)	12.51	10.22
B)	11.67	9.42
C)	10.10	8.35
D)	13.89	10.91
E)	6.65	7.55

The solution can be found below.

Week of October 30/06 - Solution

The duration of the combined portfolio is

$$\frac{D_A P_A + D_B P_B}{P_A + P_B} = \frac{(79.87)(7.85) + (55.74)(D_B)}{79.87 + 55.74}$$

Trying each of the pairs of values shows that B is the correct pair.