

Business 3059 FA

Assignment 1

Due Monday, September 30, 1:00pm (beginning of class)

1. Suppose that you are an executive of Ford Motors Canada, and that a large share of your potential income is derived from year-end bonuses that depend on your firm's annual profits.
 - (a) Would purchase of Ford Canada's stock be an efficient hedging strategy for uncertainty surrounding your bonuses?
 - (b) Would purchase of Toyota's stock be an effective hedging strategy? (Be careful here).
 - (c) What would be a good hedging strategy?
 - (d) Why wouldn't Ford pay you a fixed salary in order to reduce your risk exposure to market turbulences?
2. Do problems 1 - 4 on bond pricing in *Holden, Spreadsheet Modeling in Investments* (p. 15).
3. Take some daily Canadian Bonds listing (you can use The Globe and Mail or any other source; your source and list have to be provided in appendix). On a spreadsheet, enter for each bond the coupon rate, the maturity date and the bond price. Then create a new column that *calculates the annualized yield to maturity for each bond*, given the previous entries. Using these yields, build a chart representing annualized yield to maturity as a function of time to maturity (in years). How would you explain the shape of this curve?