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?