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FRM Assignment

Q3. Calculate the effective maturity/ duration of a one year 10 percent coupon bond. (15 marks)

Time Duration = 1 year

Coupon Bond = 10%

STEP#1

Year	Payment	Present value by discounting 10%
1	110	100

STEP#2

Year	Payment	Present Value	Relative Value
1	110	100	$100/100 = 1$

Step#3

Year	Relative Value	Year 1 Relative Value
1	1	$1 * 1 = 1$

The effective Maturity of a one year 10% coupon bond is 1.