**Complete Problem Set 4. Instructions for this assignment are located in the Files section.**

**Don't forget to submit your assignment.**

**Problem Set 4**

**Q1.**

1. $103 – $88 = $15
2. $15 x $150 = $2250

Q2.

 $7400 - $8000 = (600)

 (600) + 100 = (500)

 (500) ÷ 8000 = 0.0625

 Rate of return = 6.25%

1. The rate of return is negative

Q3. (a). Earnings per Share = After-Tax Earnings ÷ Outstanding no. Shares

 $2,000,000 ÷ 750,000 = $2.67

 b. P/E Ratio = Market Value ÷ Earnings per Share

 $40 ÷ 2.67 = 14.98 P/E Ratio = 15

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Book Value = Assets – Liabilities ÷ No. of Shares

$9,000,000 - $5,000,000 ÷ 750,000 = $5.33

Q4.

1. $1,000 x 9.5 percent = $95
2. 95 annual interest ÷ 8 percent = $1,187.50

This bond increased in value because the bond had a fixed interest rate of 9.5 percent when the economy had a decreasing interest rate

Q5.

1. $4K - $30 = $3,970 / $45 = 88 Shares
2. $8K - $50 = $7,950 / $45 = 177 shares
3. $88 x 53 = $4,664 - $90 = $4,574

Q6. (a)

 $850 x 9% = 76.5 ÷ 850 = 0.09

Market Value is the face value. So $1000 x 9% = 90

 $90 ÷ $850 = 10.6 %

 CY = 10.6%

b. YTM=(C +(F-P)/n)/(F +P)/2

 $76.50 + [($1000 – $850) ÷ 9] ÷ [($1000 + $850) ÷ 2]

$76.50 + (150 ÷ 9) ÷ (1850 ÷ 2)

76.50 + (16.67) ÷ 925

 93.17 ÷ 925 = 0.1007

YTM=10.07%