

BOND S: $n = 30$ YEARS $C = 9\%$ PAY. SEMI-ANNUAL
 $P = 905$ $PAR = \$1,000$

BOND M: $n = 30$ YEARS $C = 12\%$ PAY SEMI-ANNUAL
 $P = 1,624$ $PAR = \$1,000$

⑨ i_s : $905 = 45(PVIFA_{i_s} - 60) + \frac{1000}{(1+i_s)^{60}}$

$i_s = 5.00\% \Rightarrow APR_S = 10.00\%$

$EAR_S = (1.05)^2 - 1 = 10.25\%$
(10.25%)

i_m : $1624 = 60(PVIFA_{i_m} - 60) + \frac{1000}{(1+i_m)^{60}}$

$i_m = 3.50\% \Rightarrow APR_M = 7.00\%$

$EAR_M = (1.035)^2 - 1 = \underline{\underline{7.12\%}}$

$(1.05 - 0.035)^2 - 1 = \underline{\underline{3.032\%}}$

RISK PREMIUM = $10.25 - 7.12 = \underline{\underline{3.13\%}}$

③ OUTLOOK FOR ECONOMY WORSENS?
 MORE CONCERNED ABOUT SAFETY OF PRINCIPAL
 AND RISK OF DEFAULT, BUY MB SELL SD

$P_{MB} \uparrow \Leftrightarrow i_{MB} \downarrow$ $P_{SD} \downarrow \Leftrightarrow i_{SD} \uparrow$ PREMIUM INCREASES