

5. Use the Highpoint and Araco bonds to respond to the prompts below:

Highpoint	\$1000
6% interest	8-year
zero-coupon	

Araco	\$1000
4.2% interest	9-year
zero-coupon	

For each bond above, determine the price if there are *6 years left to maturity*.

With 6 years to maturity, assume the price of the Highpoint bond on the open market is \$682 and the price of the Araco bond is \$860. What does that mean about the risk levels of the underlying companies?

Which bond will pay out a greater percentage? Use YTM to determine which bond would make a more profitable investment.

You are an investment advisor counseling a customer who has \$80,000 to spend in the bond market. Based on the two options above, what advice would you give your client? Use evidence such as prices, quantities and returns to support your advice.

6. Assume that bond yields are down. What does this mean about the strength of the economy compared to a time when yields are up? Explain.