#1-32A

EASY INTERMEDIATE HARD

CFA® SAMPLE QUESTION – LEVEL I

Fixed Income

Q: Assume that the current price of a bond is 102.50. If interest rates increase by 0.5% the value of the bond decreases to 100 and if interest rates decrease by 0.5% the price of the bond increases to 105.5. What is the effective duration of the bond?

CORRECT ANSWER:

ⓐ **5.37**

Again this is a straight forward question, if you remember and apply the below formula, you will able to get it solved.

$$D_{effective} = -\frac{P_{up} - P_{down}}{2 \times \Delta i \times P}$$

D effective = - (100 - 105.5)/ (2 * 0.5% x 102.5) = 5.36585

CFA Society Hong Kong Candidate Services

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