

## Bus 439 Project

Orange Inc. has just completed a major sales transaction of its new product iWhine. Today is Feb. 15, 2014. From the sales, \$100 million is on the account receivable, to be actually received on Aug. 15, 2014. Orange Inc. knows for sure that it won't need to use the \$100 million until Feb. 15, 2016. Currently, the Federal Reserve, under the leadership of Mr. Ben "Helicopter" Spray Easymoney, is carrying out a massive money-printing, bond-buying program to push all interest rates down to zero and stimulate the economy, despite the miserable failures of all such efforts previously. Orange Inc. is very concerned that by Aug. 15, 2014, a deposit of \$100 million for a term until Feb. 15, 2016, will earn no interest at all. It wants to lock in the interest rate today, for a \$100 million deposit that will be actually deposited on Aug. 15, 2014, for a term that matures on Feb. 15, 2016. Below is a table of bond price quotations for today (Feb. 15, 2014). You work for the CFO of Orange Inc. Figure out how you could take up long and short positions in some of these treasury bonds today, to essentially realize the lock-in of the interest rate for Orange Inc. Which bonds will you trade, buy or sell short, and for how much face value each? What is the forward interest rate that you manage to lock in for Orange Inc., from these Treasury bond trading activities?

Maturity	Coupon	Price	Name
2014 Aug 15	12.500	105:06	Bond A
2015 Feb 15	11.250	108:01	Bond B
2015 Aug 15	10.625	110:15	Bond C
2016 Feb 15	9.250	110:25	Bond D