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A TUTORIAL ON BONDS, YIELD CURVES AND DURATION

Abstract:

This paper develops and refines a quick method for analyzing bond yields until maturity given their market price. It briefly discusses bond ratings and defines yield curves and examines their characteristics, uses and how information can be derived about the market sentiment by their analysis and study. Next, the paper introduces duration as an “elasticity” that measures a fixed income instrument’s sensitivity to the interest rate changes. Finally, the article demonstrates how the concepts associated with duration can be used to reduce or eliminate a interest rate risk as it pertains to financial assets and the investment portfolios (i.e. immunization).

Keywords:

bonds, yield curves, duration

JEL Classification: G00, G19, A20