

Download Guide To Yield Curve Bootstrapping

In finance, the yield curve is a curve showing several yields or interest rates across different contract lengths (2 month, 2 year, 20 year, etc. ...) for a similar debt contract. The curve shows the relation between the (level of the) interest rate (or cost of borrowing) and the time to maturity, known as the "term", of the debt for a given borrower in a given currency.³ Cubic Splines Fitting a discount function In mathematics a spline is a piecewise polynomial function, made up of individual polynomial sections or segments that are joined together at (user-selected) points known as knot points. Splines used in term structure modelling are generally made up with cubic polynomials, and² BOND VALUATION AND BOND YIELDS SEPTEMBER 2011 © 2011 ACCA return (or yield) is equal to the coupon – 5% in this case – the current price of www.FSGexperts.com Page 4 Treasury yield curve is based on yields derived from the prices that US treasuries are traded at in the market. Markets often have other sources of information to determine a swap yield curve such as