

34. Solution: E.

Using spot rates, the value of the bond is:

$$60/(1.07) + 60/((1.08)^2) + 1060/((1.09)^3) = 926.03.$$

Thus, the annual effective yield rate, i , for the bond is such that $926.03 = 60a_{\overline{3}|i} + 1000v^3$ at i . This can be

easily calculated using one of the calculators allowed on the actuarial exam. For example, using the BA II PLUS the keystrokes are: 3 N, 926.03 PV, 60 +/- PMT, 1000 +/- FV, CPT I/Y = and the result is 8.9% (rounded to one decimal place).