

55. Solution: A

Given the price is greater than the par value, which equals the redemption value in this case, the minimum yield rate for this callable bond is calculated based on a call at the earliest possible date because that is most disadvantageous to the bond holder (earliest time at which a loss occurs). Thus, the effective yield rate per coupon period, j , must satisfy:

Price = $1722.25 = 44a_{\overline{30}|j} + 1100v_j^{30}$ or, using calculator, $j = 1.608\%$. Thus, the yield, expressed as a nominal annual rate of interest convertible semiannually, is 3.216%