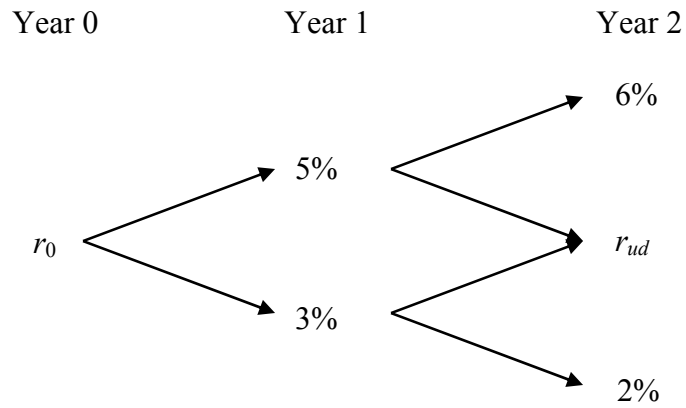


29. The following is a Black-Derman-Toy binomial tree for effective annual interest rates.



Compute the “volatility in year 1” of the 3-year zero-coupon bond generated by the tree.

- (A) 14%
- (B) 18%
- (C) 22%
- (D) 26%
- (E) 30%