

**FINC 623/ECON623**  
**Homework Assignment—Swap ‘Til You Drop**  
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Maximum team size: 3 persons

Consider an already existing plain vanilla interest rate swap with a notional principal of \$10,000,000 and four years remaining until the swap terminates. The swap calls for annual payments, and the first of the remaining floating payments is to be determined in accordance with the schedule below. The fixed payer on the swap pays 8.5%.

<b>Maturity (years)</b>	<b>Yield to Maturity</b>
1	0.070
2	0.075
3	0.080
4	0.090

1. Complete the following table.

	<b>Years to Maturity</b>			
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>Z-Factor</b>				
<b>FRF</b>				
<b>FRA</b>				

2. How much would you charge (or how much would you pay) to take the place of the fixed payer for the remaining cash flows on the swap? (Said another way, what is the swap worth (positive or negative) from the point of view of the fixed payer?) Show your work.