CFA level 1, FI: Matrix Pricing

Matrix Pricing Algorithm for Illiquid Bonds

If we have the data for bonds with different maturities and similar credit risks that are actively traded on the market and want to compute the price of a bond that is not actively traded, we can use matrix pricing.

The algorithm is as follows:

1. Compute the average YTM for each maturity for actively traded bonds.
2. Estimate the market discount rate for a bond that is not actively traded using linear interpolation and the YTMs from Step 1.
3. Compute the price of the illiquid bond using the yield-to-maturity (YTM) computed in Step 2.

Read more at: http://soleadea.org/cfa-level-1/matrix-pricing

and make your own notes to improve your knowledge retention.

My notes:

Create a free CFA study plan at: http://soleadea.org/cfa-exam/study-planner

It will help you control your prep ☺