

CFA level 1, FI: Spot Rates & Forward Rates

If we know two different spot rates, we are able to compute the implied forward rate:

$$(1 + z_n)^n \times (1 + f_{n,n+k})^k = (1 + z_{n+k})^{n+k}$$

$$f_{n,n+k} = \left(\frac{(1 + z_{n+k})^{n+k}}{(1 + z_n)^n} \right)^{\frac{1}{k}} - 1$$

Where:

- z_n – yield-to-maturity on a zero-coupon bond maturing in n years,
- z_{n+k} – yield-to-maturity on a zero-coupon bond maturing in $(n+k)$ years,
- $f_{n,n+k}$ – implied k -year forward yield n years into the future (n -year into k -year rate; nyky; n 's, k 's).

Read more at: <http://soleadea.org/cfa-level-1/spot-rates-and-forward-rates>

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 😊