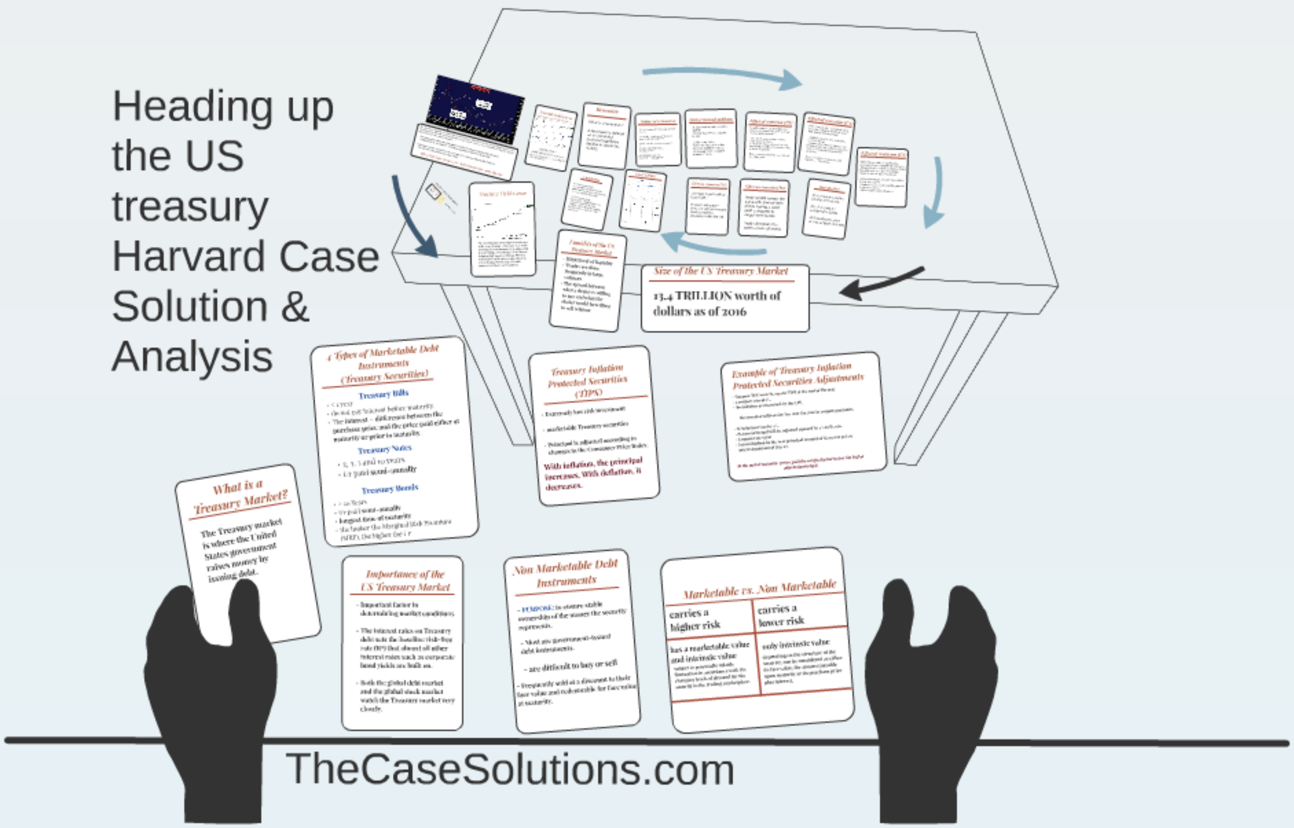
Heading up the US treasury Harvard Case Solution & Analysis



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What is a Treasury Market?

The Treasury market is where the United States government raises money by issuing debt.

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- i/r p

- > 10 Yea
- i/r paid
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4 Types of Marketable Debt Instruments (Treasury Securities)

Treasury Bills

- < 1 year
- do not pay interest before maturity.
- The **interest** = **difference between the purchase price and the price paid either at maturity or prior to maturity.**

Treasury Notes

- 2, 3, 5 and 10 years
- i/r paid **semi-anually**

Treasury Bonds

- > 10 Years
- i/r paid **semi-anually**
- **longest time of maturity**
- the higher the Marginal Risk Premium (MRP), the higher the i/r

Treasury Inflation Protected Securities (TIPS)

- Extremely low risk investment
- marketable Treasury securities
- Principal is adjusted according to changes in the Consumer Price Index.

With inflation, the principal increases. With deflation, it decreases.

Example of Treasury Inflation Protected Securities Adjustments

- Suppose YOU own $1,000 in TIPS at the end of the year
- a coupon rate of 1%.
- No inflation as measured by the CPI,

the investor will receive $10 over the year in coupon payments.

- If inflation rises by 2%,
- $1,000 principal will be adjusted upward by 2% to $1,020.
- Coupon rate same
- but multiplied by the new principal amount of $1,020 to get an interest payment of $10.20.

At the end of maturity, you're paid the original principal or the higher adjusted principal.

Non Marketable Debt Instruments

- **PURPOSE**: to ensure stable ownership of the money the security represents.

- Most are government-issued debt instruments.

- are difficult to buy or sell

- Frequently sold at a discount to their face value and redeemable for face value at maturity.

Marketable vs. Non Marketable

carries a higher risk	carries a lower risk
has a marketable value and intrinsic value subject to potentially volatile fluctuation in accordance with the changing levels of demand for the security in the trading marketplace.	only intrinsic value depending on the structure of the security, can be considered as either its face value, the amount payable upon maturity or its purchase price plus interest.