

ZERO COUPON BONDS



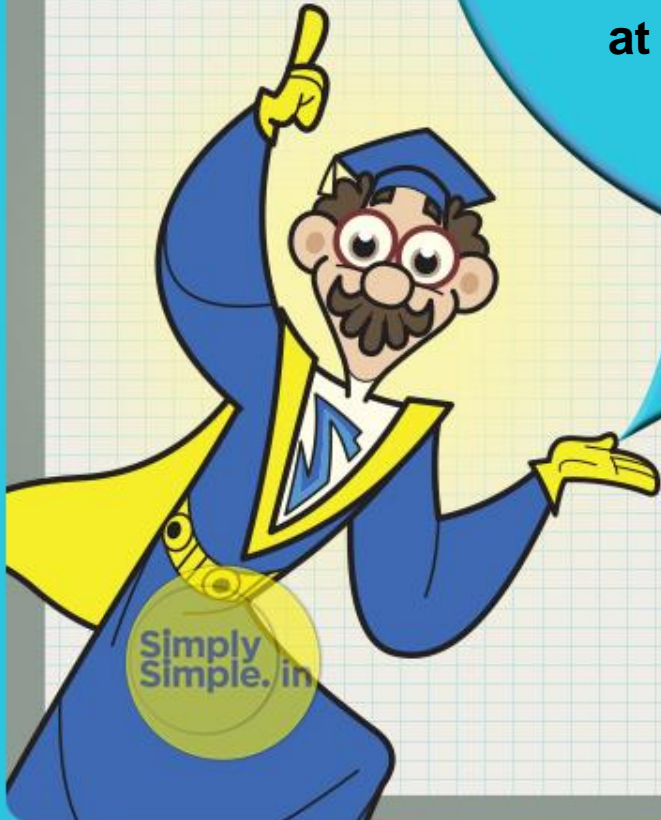
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Understanding Zero Coupon Bonds



ZERO COUPON BONDS

Zero coupon bonds is a bond that is issued at a discounted price and redeemed at par at the time of maturity.



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Lets try and understand
this through an illustration



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Rahul has invested Rs. 920/- in a zero coupon. Assume that after 1 year he would receive Rs. 1000/- .



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In the instant case Rahul pays Rs. 920/- (Discounted price) and he would receive Rs. 1000/- (Par value) after 1 year.



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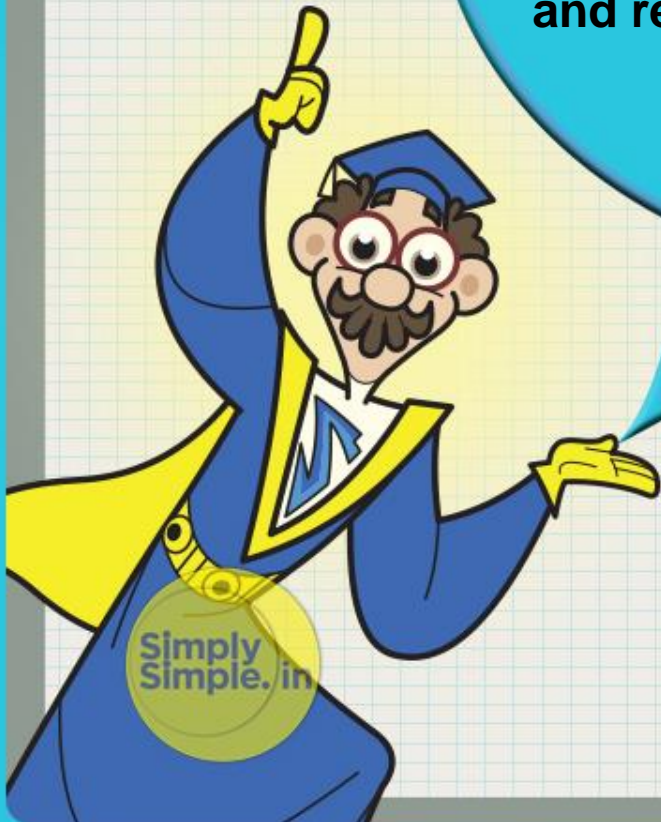
Return (yield) on the bond for Rahul is 8.70% and can be arrived as follows

$$(1000 - 920) / 920$$



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Thus Zero Coupon Bond is nothing but a terminology used for a bond that is issued at a discounted price and redeemed at par on maturity



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Hope you have understood the
Concept of Zero Coupon Bond



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