



- (d) **(11 points)** Build a time line of the “survival probabilities” for International Paper over the next four years.
- (e) **(11 points)** Build a time line of the expected future cash flows on these International Paper’s 4-year 7% coupon bonds.
- (f) **(11 points)** What continuously compounded rate –when correctly used to discount the expected future cash flows from the time line in (e) will yield the bond’s market price as the sum of those discounted expected future cash flows? Explain.

- (g) **(11 points)** At the same time International Paper issued its 4-year bonds, Weyerhaeuser issued 4-year 8.5% coupon bonds—that make annual payments, that sell for par. What is the credit spread (yield spread over Treasury, on a continuously compounded basis) on this Weyerhaeuser bond?
- (h) **(11 points)** Contrast International Paper and Weyerhaeuser: Which company has a higher probability of going bankrupt over the next four years? Explain.
- (i) **(12 points)** Which of the three 4-year bonds in this question: US Treasury, International Paper and/or Weyerhaeuser, has the highest expected return? Explain.