

Fixed Income
Quiz 9 *October 29, 2018*

Problems. Show all work. Clearly indicate your answer to each question.

1. **(5 points)** What is the difference between triparty repo and bilateral repo?
2. **(15 points)** Baklanova, Copeland, and McCaughrin note that there are four “main distinctions” between bilateral and trilateral repo. List these distinctions, and provide a brief description of each.
3. **(10 points)** Baklanova, Copeland, and McCaughrin state that “there are two main motivations for transacting in the bilateral repo market instead of triparty.” What are these two?
4. **(10 points)** According to Baklanova, Copeland, and McCaughrin, what do securities dealers do in the repo markets, and what services do they provide?

5. Show the profit / loss from the following trade. On Thursday, February 14, 2019, you sell short \$100 million par of the February 15, 2028 STRIPS. The yield on these 9-year STRIPS is 4.4%, on a continuously-compounded basis. Suppose that the STRIPS trade as general collateral in repo, and the overnight repo rate is 3% over your entire holding period. You work for a hedge fund that uses 9% (continuously-compounded) as its cost of capital. For all parts of this question you may ignore marking to market. You close this position on August 15, 2019, when the STRIPS yield is still 4.4%. There are 181 days between February 15, 2019 and August 15, 2019.

(a) **(20 points)** Suppose that the February 15, 2028 STRIPS trade as general collateral in repo, and have a 0 haircut.

(b) **(20 points)** Suppose that the February 15, 2028 STRIPS trade on special in repo—with specialness of 300 basis points throughout the entire holding period, and have a 0 haircut. Relative to the base case (a), what is the dollar effect of this on on this trade's Profit or Loss?

(c) **(20 points)** Suppose that the February 15, 2028 STRIPS trade as general collateral in repo and the securities lender requires a 2% haircut throughout the entire holding period. Relative to the base case (a), what is the dollar effect of this on this trade's Profit or Loss?