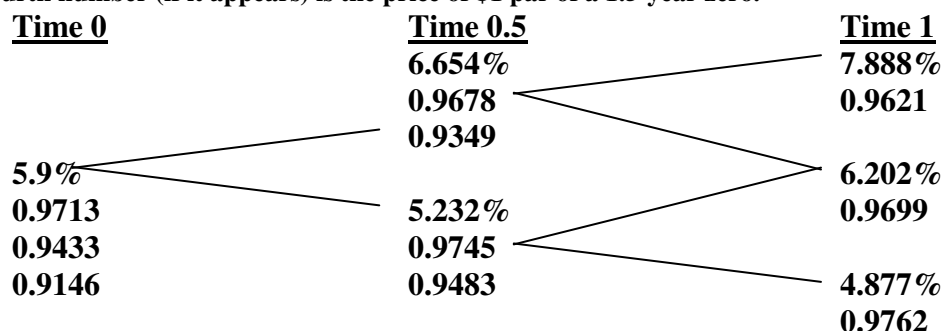
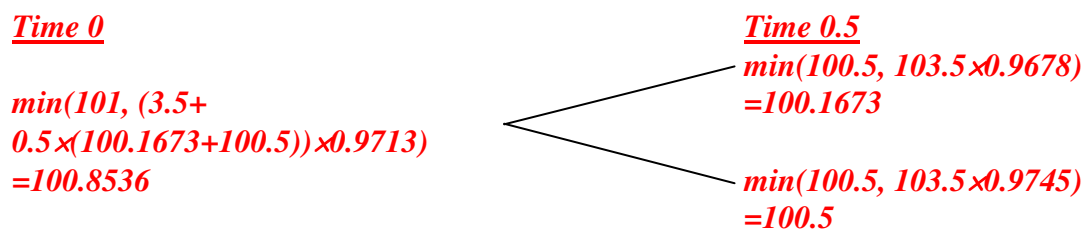


The first number at each node is the 0.5-year rate at that node.
 The second number at each node is the price of \$1 par of a 0.5-year zero at that node.
 The third number (if it appears) is the price of \$1 par of a 1-year zero at that node.
 The fourth number (if it appears) is the price of \$1 par of a 1.5-year zero.



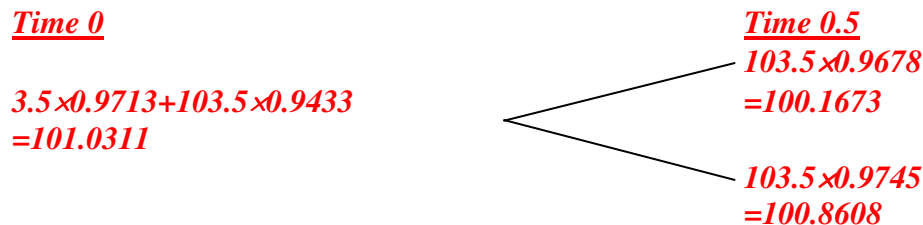
Determine the price tree of ex-coupon prices of a \$100 par 1-year 7% per annum semi-annual coupon bond that is **callable** at 101 at time 0, and 100.50 at time 0.5. The tree should go out to time 0.5.

APPROACH #1:

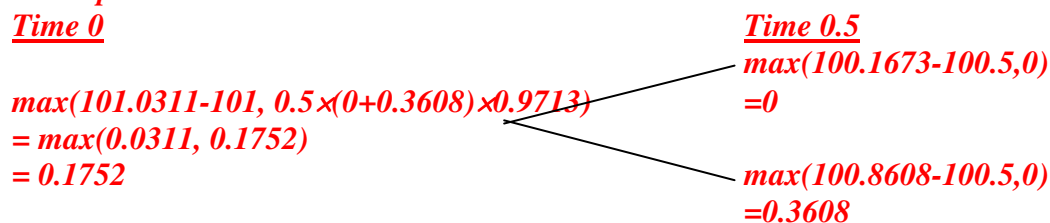


APPROACH #2:

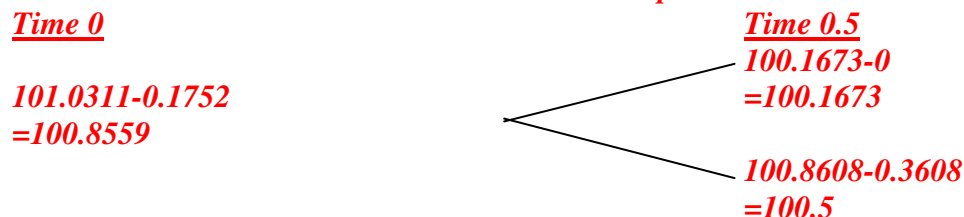
Noncallable Bond:



Call Option:



Callable Bond = Noncallable Bond minus Call Option:



Difference is due to rounding.