

PROJECT REPORT ON
“A STUDY ON THE TERM STRUCTURE OF INTEREST RATE AND
BOND VALUATION”

Submitted By

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Submitted To



VISVESVARAYA TECHNOLOGICAL UNIVERSITY, BELAGAVI

In partial fulfilment of the requirements for the award of the degree of

MASTER OF BUSINESS ADMINISTRATION

Under the guidance of

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ALVA'S INSTITUTE OF ENGINEERING & TECHNOLOGY

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Date: 09/09/2024

CERTIFICATE

This is to certify that **Rakshitha** bearing **USN 4AL22BA074**, is a bona-fide student of Master of Business Administration course of Alva's Institute of Engineering and Technology, Moodbidri for the batch 2022-2024, affiliated to Visvesvaraya Technological University, Belagavi. The Project report on "**A Study on the Term Structure of Interest Rate and Bond Valuation**" is prepared by her under the guidance of **Dr. Vishnu Prasanna K.N.**, Professor, in partial fulfilment of the requirements for the award of the degree of Master of Business Administration of Visvesvaraya Technological University, Belagavi Karnataka.

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DECLARATION

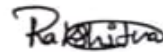
I, **Ms. Rakshitha** (USN: 4AL22BA074) hereby declare that the project report on "**A STUDY ON THE TERM STRUCTURE OF INTEREST RATE AND BOND VALUATION**" is prepared by me under the guidelines of Dr. Vishnu Prasanna K.N., Professor of Finance, PG Department of Business Administration, Alva's Institute of Engineering and Technology, Mijar, Moodbidri.

I also declare that this project work is towards the partial fulfilment of the university regulations for degree of MASTER OF BUSINESS ADMINISTRATION by Visvesvaraya Technological University, Belgaum.

I have undergone a project for a period of 6 weeks. I further declare that this project is based on the original study undertaken by me and has not been submitted for the award of any degree/diploma from any other University/Institution

Date: 19-09-2024

Place: Mijar, Moodbidri



Signature of the Student

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With regards,

Rakshitha

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EXECUTIVE SUMMARY

This study examines the term structure of interest rates and bond valuation, key concepts for navigating the fixed income securities markets. The term structure of interest rates using yield curves describes the relationship between bond yields and maturities, reflecting current interest rate conditions and market expectations. Bond valuation, on the other hand, determines the fair market price of the bond by discounting its future cash flows at an appropriate interest rate derived from the term structure.

The purpose of the research is to address the complexity of bond value and interest rate dynamics by analyzing the relationship between maturity and bond yields using various term structure theories such as the expectations hypothesis. In addition, it evaluates the accuracy of various bond pricing models, including duration analysis, in forecasting bond prices. This analysis is based on 2014-2024. annual data on ten bonds from different sectors and redemption periods. They provide insight into the impact of economic events, monetary policy decisions and market conditions on bond valuations.

Empirical methods used include regression analysis, correlation coefficient estimation and descriptive analysis to quantify the relationship between key bond variables such as coupon rate, maturity and yield (YTM). These statistical tools increase understanding of how interest rate movements affect bond prices and the effectiveness of different pricing models.

The findings underscore the importance of the term structure of interest rates in bond valuations and highlight its role in reflecting market sentiment and the economic outlook. Changes in the yield curve, which indicate changes in interest rate expectations, directly affect the value of bonds, making this study important for investors, policy makers and financial analysts. Understanding these dynamics helps you make informed investment decisions, manage interest rate risk and develop sustainable investment strategies.

Overall, this study contributes to financial theory and practice by providing a comprehensive analysis of bond valuation and the term structure of interest rates. This underscores the need for accurate pricing models and constant

monitoring of market dynamics to effectively navigate the complexities of the bond market.