You will need a pair of dice for this problem! Form a four-person team. Each team member is assumed to be the CFO for a company that is considering issuing bonds. Each team member will roll the dice twice and record the results (e.g., 7, 9). The first value will be the "stated rate of interest" for that team member's proposed bond issue. The value of the second roll will be the "effective rate."

Each team member should explain to the remainder of the team if they would expect their company's bonds to be issued at par, a premium, or a discount (and why!).

Following the general explanation, assume the bonds are $100,000 of 5-year bonds, paying interest semiannually. Each team member should perform calculations showing the actual premium or discount, then compare results. How do the premiums and discounts compare to the expected outcomes? Are they a function of the "spread" between the stated rate and effective rate?