Lecture: 24
Interest Rate Swaps

Model Questions

1. **Explain with examples and diagram the concept of interest rate swap.**
2. **You enter into a 5-year fixed-for—fixed currency swap to receive a cash flow stream in British pounds and to pay cash flow stream in US dollars. The swap is an at-market swap based on a notional principal of $1 million. What are the cash flows of the swap if the 5-year market yields are 5.50% for US$ and 9% for British pounds and the spot Fx rate is currently 1.50 dollar per pounds.**
3. **Jan 1, 2010, Company A and Company B enters into a 10-year interest rate swap with the following terms:**
   - **Company A pays Company B an amount equal to 11%(fixed interest rate) per annum on a notional principal of $200,000 .**
   - **Company B pays Company A an amount equal to one-year LIBOR + 4% per annum on a notional principal of $200,000**

   Decide the pay off for both the parties.