Andreas Krause

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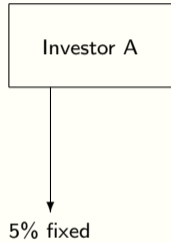- ▶ Investors use swaps to hedge their exposure to interest rates by matching incoming and outgoing payments

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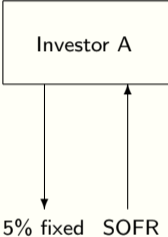
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Investor A

Investor A

5% fixed

Investor A

Investor B

5% fixed   SOFR

▶ Value of the long-term fixed-rate bond is the present value of all future payments

▶ $B_{\mathsf{fix}} = \sum_{\tau=1}^{T} \frac{C_{\mathsf{fix}}}{} + \frac{B_0}{}$

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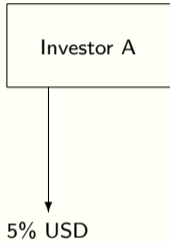▶ Whether a premium is to be paid, depends on the agreed conditions

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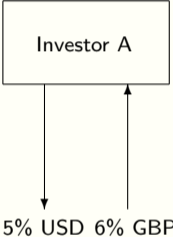- ▶ The fixed rate at which the swap has no value, $V = 0$, is referred to as the swap rate

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