Abstract

The yield curve is the building block of fair value in pricing bonds. It has been used by market participants for their asset valuations, Central Bank and Government's Treasury for monetary, interest rate and borrowing decisions. The official yield curve construction in Indonesia government bond is based on Svensson (1994) model which is widely accepted and used by several countries. The objective is to find more accurate fair price from yield curve as the alternative of IBPA government bond curve as the baseline. This research takes observation on three alternative yield curve models in comparison with the baseline Svensson Model to price several series of benchmark and non-benchmark bonds. The main contribution of this research is the dynamic lambda that applies in the third model. With the dynamic lambda, the yield curve would have different curvature that will affect the fair price performance of Indonesia government bonds. The fair price is further tested with One-Way ANOVA and Post Hoc in order to find the significance between models. The results show that alternative models are performing better in determining the fair value prices of the government bonds compared to the baseline model.

Keywords: fair value price, pricing model, government bond, dynamic model, lambda