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The duration and convexity of convertible preferred stock: an extension

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Abstract

The purpose of this paper is to provide mathematical expressions for the duration and convexity of a convertible preferred stock. In general, the duration of a convertible preferred stock is the product of the Macaulay duration for a pure preferred stock and an elasticity measure that relates the convertible's price to the price of its straight preferred component. Convexity has two parts. The first is based on the convexity of the pure preferred element, while the second is predicated on the gamma coefficient of the embedded call option.

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