

**Effective Duration:**

Effective duration or simply the duration is used to calculate the approximate %age change in bond price for a 1% (100 basis points) change in interest rates.

Effective duration can be computed as:

$(\text{Price if yield decline} - \text{price if yield rise}) / 2 * (\text{initial price}) * (\text{change in yield in decimal})$

**Price change when effective duration and change in yield is given:**

If effective duration is given then it becomes easy to compute approximate price change by using the following formula:

**Approximate %age change in price = - duration x change in yield x 100**