CH 7

*. Jerry Garcia purchased a $1,000 par value bond with a 9 percent annual coupon rate and an original maturity of 20 years. The bond was issued four years ago, and the yield to maturity is 11 percent. What is the price Mr. Garcia should be willing to pay for this bond?
   a. $1,166.25 
   b. $1,000 
   c. $852.42 
   d. $840.73

*. A private investor is considering the purchase of a $1,000 par value bond paying interest semiannually. The bond has an annualized coupon rate of 8 percent, and bonds with similar characteristics pay interest rates of 6 percent. The bond has 15 years remaining to maturity. A fair price for the bond is $__________.
   a. 1,000.00 
   b. 1,196.00 
   c. 1,194.24 
   d. 827.08

*. (Financial calculator required.) An investor can purchase a bond with ten years remaining until maturity, a par value of $1,000, and a 7 percent annual coupon rate for $1,050. The yield to maturity is _____ percent.
   a. 6.31 
   b. 7.00 
   c. 3.16 
   d. none of the above

*. Callable bonds are _______ likely to be called when interest rates ________.
   a. less; decline 
   b. more; decline 
   c. more; increase 
   d. none of the above

*. (Financial calculator required.) An investor would like to purchase a bond that has a par value of $1,000 and pays $60 at the end of each year in coupon payments. The bond has seven years remaining until it matures. If the prevailing annualized yield on other bonds with similar characteristics is 5 percent, how much should the investor be willing to pay for the bond?
   a. $1,000.00 
   b. $1,057.86 
   c. $944.18 
   d. none of the above

*. Jerry Garcia purchased a $1,000 par value bond with a 9 percent annual coupon rate and an original maturity of 20 years. The bond was issued four years ago, and the yield to maturity is 11 percent. What is the price Mr. Garcia should be willing to pay for this bond?
   a. $1,166.25 
   b. $1,000 
   c. $852.42 
   d. $840.73

*. If a bond pays interest semiannually, which of the following adjustments needs to be made to correctly compute the price of the bond?
   a. The number of years should be split in half. 
   b. The annualized coupon should be doubled. 
   c. The annual yield to maturity should be divided by 2. 
   d. The par value should be split in half.
A private investor is considering the purchase of a $1,000 par value bond paying interest semiannually. The bond has an annualized coupon rate of 8 percent, and bonds with similar characteristics pay interest rates of 6 percent. The bond has 15 years remaining to maturity. A fair price for the bond is $_________.

a. 1,000.00
b. 1,196.00
b

c. 1,194.24
d. 827.08

* If a bond sells above its par value, it is called a__________ bond.

a. discount
b. premium
b

c. callable
d. convertible

* If the coupon rate of a bond is _______ the yield to maturity, the price of the bond should be _______ the par value.

a. below; above
b. above; below
c. above; above
d. above; the same as

* A _________ than expected level of inflation will put _________ pressure on the value of bonds.

a. higher; downward
b. higher; upward
c. lower; downward
d. none of the above

Main Reference – web site

1. A long-term contract under which a borrower agrees to make payments of interest and principal on specific dates is called a:

a. common stock.
b. preferred stock.
c. equity contract.
d. bond.

2. ____________ are issued by state and local governments.

a. Treasury bonds
b. Municipal bonds
c. Corporate bonds
d. Personal bonds

3. A bond that pays no annual interest but is sold at a discount below the par value is called:

a. an original maturity bond.
b. a floating rate bond.
c. a fixed maturity date bond.
d. a zero coupon bond.

4. If denominated in a currency other than the investor’s home currency, the purchase of foreign bonds adds the additional risk of changes in the relative value of the two currencies.

a. True
b. False

5. Other things held constant, if a bond indenture contains a call provision, the yield to maturity that would exist without such a call provision will generally be ___________ the YTM with a call provision.

a. Higher than.
b. Lower than.
c. The same as.
d. Either higher or lower (depending on the level of the call premium) than.
6. The rate of return earned on a bond if it is held until maturity is its:
   a. yield-to-call.
   b. coupon payment.
   c. yield-to-maturity.
   d. sinking fund yield.

7. All else equal, if a bond’s yield-to-maturity increases:
   a. its price will rise
   b. its price will remain unchanged
   c. its price will fall.

8. All else equal, __________ bonds have more reinvestment rate risk than __________ bonds.
   a. high-coupon; low-coupon
   b. low-coupon; high-coupon
   c. non-callable; corporate
   d. callable; municipal

9. Which of the following bonds will have the greatest percentage increase in value if all interest rates decrease by 1 percent?
   a. 20-year, zero coupon bond.
   b. 10-year, zero coupon bond.
   c. 20-year, 10 percent coupon bond.
   d. 20-year, 5 percent coupon bond.

10. Bonds are traded primarily in the over-the-counter market.
   a. True
   b. False

*  In which of the following cases is the bond selling at a discount? (1989 CFA exam)
   a. Coupon rate is greater than current yield, which is greater than yield to maturity.
   b. Coupon rate, current yield, and yield to maturity are all the same.
   c. Coupon rate is less than current yield, which is less than yield to maturity.
   d. Coupon rate is less than current yield, which is greater than yield to maturity.

*  When are yield to maturity and current yield on a bond equal? (1992 CFA exam)
   a. When market interest rates begin to level off.
   b. If the bond sells at a price in excess of its par value.
   c. When the expected holding period is greater than one year.
   d. If the coupon and market interest rate are equal.

*  Using semiannual compounding, what would the price of a 15-year zero coupon rate bond that has a par value of $1,000 and a required return of 8 percent be? (1991 CFA exam)
   a. $308
   b. $315
   c. $464
   d. $555

*  A 15-year bond has a par value of $1,000. The bond has a 10% semi-annual coupon (i.e., the bond pays a coupon of $50 every six months). The bond has a price of $1,190. The bond is callable in five years at a call price of $1,050. 20. What is the bond’s nominal yield to maturity?
   a. 6.37%
   b. 6.73%
   c. 7.60%
   d. 7.83%
   e. 8.25%

   Answer is D.
   N = 30; FV = 1,000; PV = -1,190; PMT = 50
   Solve for I = 3.9128 – but this is for 6 months.
   So, 3.9128 x 2 = 7.8256
What is the bond’s nominal yield to call?

a. 6.37%
b. 6.73%
c. 7.60%
d. 7.83%
e. 8.25%

Answer is A.

PV = -1,190; N = 10; FV = 1,050; PMT = 50
Solve for I = 3.184 x 2 = 6.368

*Bonds A, B and C all have a maturity of 10 years and a yield to maturity equal to 7%. Bond A’s Price exceeds its par value, Bond B’s price equals its par value, and Bond C’s price is less than its par value. Which of the following statements is most correct?

a. If the yield to maturity on the three bonds remains constant, the price of the three bonds will remain the same over the course of the next year.
b. If the yield to maturity on each bond increases to 8%, the price of all three bonds will decline.
c. If the yield to maturity on each bond decreases to 6%, Bond A will have the largest percentage increase in its price.
d. Answers a and c are correct.
e. All of the above answers are correct.

Answer is B.