**Topic 6 Knowledge Check**

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| Points: | 36 |

Started on Jul 02 at 22:50

Your Submission:

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1. Bookmark question for later

What type of bond is tax exempt?

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| --- |
| * + Zero-coupon Bond   + Foreign Bond   + Convertible Bond   + Muni-bond   + Euro Bond |
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1. Bookmark question for later

Why are bonds the primary method for raising capital?

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| * + Coupon payments are flexible from year to year   + Issuing bonds is never restricted by the debt ratio of the firm   + They repay the principle slowly over the life of the loan   + They avoid the costs of the intermediary   + Coupon payments may be skipped in times of financial distress |
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1. Bookmark question for later

The amount repaid at the expiration date is called:

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| * + Par Value   + Yield to Maturity   + Coupon Rate   + Maturity Rate   + Expiration Rate |
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1. Bookmark question for later

Would you buy a $1000 face value bond selling for $700, 10 years to maturity, which pays a 5% coupon?   Your annual required rate of return is 10% and the bond pays its coupons semi-annually.

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| * + Yes, it pays greater than required rate of return of 10%   + No, it won't pay greater than required rate of return of 10% |
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1. Bookmark question for later

Trampoline Inc. wants to expand their business.  They will issue bonds to fund their expansion.  If the current required rate of return for investors is 11%, what should the price be for their bonds with a $1000 face value, 15 years to maturity, and a coupon rate of 8% paid semi-annually?

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| * + $781.99   + $884.27   + $957.01   + $1198.43   + $1345.88 |
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1. Bookmark question for later

Currently, Sport City’s 10-year bonds are selling for $975. What is the bond’s yield to maturity given that the bond has a $1,000 face value and that it pays 6% interest annually?

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| --- |
| * + 5.76%   + 2.97%   + 3.17%   + 4.17%   + 6.34% |
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1. Bookmark question for later

Which of the following statements about a bond are true?  
  
i.  A bond is a fixed-income security

ii. The bond's interest payments vary each year with the market

iii. Bonds allow firms to save on banker's overhead compared to bank loans

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| * + ii and iii   + i and ii   + i, ii, and iii   + i and iii   + Only iii   + Only ii   + Only i |
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1. Bookmark question for later

Some New Co. needs funding for a new product that will revolutionize the world.  They want to issue new bonds to fund their project.  Some New Co. is worried about generating enough cash to make coupon payments during the introduction phase of their product, so they would like to keep the coupon payments below the market interest rate.  They are offering a 5-year, $1000 face value bond with a YTM of 15% for $750. What will their coupon payments be if they make coupon payments semi-annually?

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| * + $42.73   + $30.00   + $35.14   + $29.79   + $38.58 |
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1. Bookmark question for later

Your credit union is advertising a 10 year CD at a rate of 3% EAR. These CD's compound quarterly.   What is the APR?

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| * + 2.97%   + 3.12%   + 1.50%   + 2.00%   + 2.56% |
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1. Bookmark question for later

What is the interest rate for annual payments of the bond known as?

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| * + Covenants   + Maturity   + Par Value   + Coupon Rate |
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1. Bookmark question for later

Calculate the PV of the cash flows associated with a 10-year bond that pays $30 coupon payments every 6 months and a face value of $1000.  The current interest rate is 6% APR.

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| * + $790.00   + $655.90   + $779.20   + $534.89   + $1000.00 |
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1. Bookmark question for later

Jayne and Josh are ready to buy a house.  The bank is advertising an APR for 30-year fixed rate mortgages of 4.75%.  What is the EAR for this mortgage that is compounded monthly?

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| * + 4.55%   + 4.99%   + 4.25%   + 4.00%   + 4.85% |
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1. Bookmark question for later

What type of bond can be traded in for stock?

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| * + Euro Bond   + Convertible Bond   + Zero-coupon Bond   + Foreign Bond   + Muni-bond |
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1. Bookmark question for later

Which is the largest source of capital for firms?

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| * + Donations   + Unsecured Loans   + Secured Loans   + Stocks   + Bonds |
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1. Bookmark question for later

What is the PV of a 1-year $100 bond that pays no coupon payments if borrowing rates are 4%?

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| * + $130.22   + $96.15   + $100.00   + $90.02   + $102.35 |
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1. Bookmark question for later

The date on which the face value of the bond is repaid is the:

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| * + Expiration or maturity date   + Face value date   + Coupon date   + Issue date   + Payment date |
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1. Bookmark question for later

What type of bond is paid in a different currency than the country's issuing it?

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| * + Foreign Bond   + Zero- coupon   + Muni-Bond   + Convertbile Bond   + Euro Bond |
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1. Bookmark question for later

Currently, Sport City’s 10-year bonds are selling for $975. What is the bond’s yield to maturity given that the bond has a $1,000 face value and that it pays 6% interest annually? (Assume coupons are paid semi-annually.)

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| --- |
| * + 3.17%   + 5.76%   + 2.97%   + 6.34%   + 4.17% |
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1. Bookmark question for later

You want to buy a semiannual bond that has four years left before maturity. It has a 6% coupon rate and the market yield is currently 5.2%. What is the price you are willing to pay?

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| * + 1,028.56   + 868.95   + 1,034.13   + 1,253.89 |
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1. Bookmark question for later

What is the YTM for a 14-year semiannual bond that pays $35 every six months and has a purchase price of $980? Face value is $1,000.

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| * + 3.61%   + 5.25%   + 3.75%   + 7.23% |
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1. Bookmark question for later

What is the price of a 1-year $1,000 bond with a 3% coupon rate if the YTM is 5.2%?

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| * + 979.09   + 952.48   + 1,068.17   + 899.42 |
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1. Bookmark question for later

A 5% semiannual $1,000 bond matures in four years. What is the YTM if the price is $1,069?

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| * + 1.75   + 1.58   + 3.15   + 2.92 |
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1. Bookmark question for later

You are interested in a quarterly $1,000 bond that matures in seven years and has a coupon rate of 6% and a YTM of 8%. What is the price?

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| * + 893.59   + 1,033.21   + 901.36   + 895.87 |
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1. Bookmark question for later

You want to sell a bond for over $1,000. Can you do that if the coupon rate is 6.5% and the bond yield is 6.8%?

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| * + No   + Yes |
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1. Bookmark question for later

You are contemplating buying either an annual bond or a semiannual bond. Is there any difference in the price if both bonds have the same data: $1,000 face value with a 4% coupon rate? The bonds mature in five years having identical YTMs of 4.8%. Is there a price difference between the annual bond and the semiannual bond? Why or why not?

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| * + Different payments make the price increase.   + There is not a price difference.   + The payment is lower, so the price will be lower.   + Price is higher with additional compounding periods. |
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1. Bookmark question for later

A company wishes to issue 10-year bonds with a face value of $1,000 and a coupon rate of 5.5%. The market has shifted before the issuance and the bonds will sell at 94% of face value. What is the YTM of the bonds when they are sold?

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| * + 6.00%   + 6.71%   + 6.33%   + 5.50% |
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1. Bookmark question for later

A $1000 3% bond with a yield of 2.4% matures in six years. What is the price if the interest payments are made semiannually?

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| * + 981.29   + 1,033.34   + 950.26   + 1,056.20 |
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1. Bookmark question for later

An investor wants to maximize the YTM. Which bond would the investor choose?  Bond 1 has a price of $954 with a coupon rate of 7% and a maturity of four years. Bond 2 has a price of $972 with a coupon rate of 6.5% and a maturity of six years. Both have a face value of $1,000 and the coupon payments are paid semiannually.

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| * + Bond 1: 8.38 Bond 2: 3.54   + Bond 1: 5.22 Bond 2: 7.08   + Bond 1: 8.38 Bond 2: 7.08   + Bond 1: 4.17 Bond 2: 3.54 |
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1. Bookmark question for later

What is the price of a six-year $1,000 bond with a coupon rate of 7.4% and a YTM of 6.2% that has semiannual payments?

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| * + 1,003.20   + 1,023.48   + 1,425.70   + 1,059.37 |
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1. Bookmark question for later

An investor wants to make 5% YTM on a bond that is $1,000 face value with a coupon rate of 4.2%. What price would the investor pay if the bond payments are quarterly and the bond matures in five years?

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| * + 964.80   + 976.42   + 967.36   + 955.40 |
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1. Bookmark question for later

A bond issued with a face value of $1,000 pays a 6% coupon rate semiannually. It matures in four years. Current market interest is 7.5%. What is the price of the bond?

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| * + 1,051.87   + 949.76   + 948.98   + 952.43 |
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1. Bookmark question for later

A bond issued with a face value of $1,000 pays a 3% coupon rate and matures in seven years. If an investor wants a yield of 4%, how much is the investor willing to pay for the bond?

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| * + 1,067.04   + 1,033.32   + 939.98   + 939.46 |
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1. Bookmark question for later

An investor wants to know what the yield to maturity is for a $1,000 bond with a 5.5% coupon rate that matures in five years if the current market price is $955.

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| * + 7.23   + 6.62   + 6.59   + 6.33 |
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1. Bookmark question for later

A $1,000 bond matures in six years. It pays $35 every six months. The current market price is $1,075. What is the yield?

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| * + 5.51   + 3.12   + 6.03   + 2.76 |
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1. Bookmark question for later

Which of the following gives the largest effective rate (APY)?

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| * + 18.6% compounded yearly   + 18.6% compounded daily   + 18.6% compounded weekly   + 18.6% compounded monthly |
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1. Bookmark question for later

Suppose that an investment will pay 24% APR for a year and the interest will be compounded monthly. What is the expected APY for the investment?

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| * + 26.82%   + 25.41%   + 28.00%   + 24.50% |