

7.08 Yield and Yield Spread Measures for Floating-Rate Instruments

Question 1

A floating-rate note has a quoted margin of 35 basis points (bps) and a discount margin of -15 bps. If the relevant reference rate is 3.25% on the bond's reset date, the new coupon rate is *most likely*:

- A. 3.10%
- B. 3.45%
- C. 3.60%

Question 2

A 4%, annual-pay bond is currently priced at 105 per 100 of par value. It has three years to maturity and is callable at a price of 102.5 at the end of Year 1 and 100.5 at the end of Year 2. The yield-to-worst is the bond's:

- A. yield to maturity.
- B. yield to first call.
- C. yield to second call.

Question 3

A bond's current price is 95 per 100 par value. Its current yield is *best* described as its annual coupon payments divided by its:

- A. flat price.
- B. full price.
- C. par value.

Question 4

A two-year floating-rate note makes quarterly payments at 3-month LIBOR plus 50 basis points (bps). The floater is priced at 98.75 per 100 of par value, and the current 3-month LIBOR is 1.5%. Assuming a 30/360 day-count convention and evenly spaced periods, the discount margin is *closest* to:

- A. 66 bps
- B. 114 bps
- C. 264 bps

Question 5

With respect to an investor's rate of return, a money market instrument's discount rate *most likely*:

- A. understates return.
- B. fairly states return.
- C. overstates return.

Question 6

One year ago, an investor purchased a 3-year bond with a 6% semiannual coupon. The purchase price was 95. The bond is currently trading at a flat price of 99. The bond's current yield is *closest* to:

- A. 6.1%
- B. 6.3%
- C. 6.5%

Question 7

A 2-year floating rate note is priced at 98 per 100 par value and pays interest quarterly based on the 3-month LIBOR. It has a discount margin of 50 basis points (bps) and uses a 30/360 day-count convention. If the three-month LIBOR is 3% throughout the life of the bond, the quoted margin is *closest* to:

- A. - 153 bps.
- B. - 54 bps.
- C. 50 bps.

Question 8

A T-bill with 121 days to maturity has a 360-day assumed year and a USD 1 million par value. If it is currently priced at USD 988,176, then its discount rate is *closest* to:

- A. 1.18%
- B. 3.52%
- C. 3.56%

Question 9

Interest rates of different money market instruments are *best* compared using their:

- A. quoted yields.
- B. periodic interest rates.
- C. bond equivalent yields.

Question 10

A two-year floating-rate note pays three-month Libor plus 15 basis points. The floater is priced at 99.60 per 100 par value, three-month Libor is currently 1.45%, and the coupon reset today. Assuming a 30/360 day-count convention and quarterly coupon payments, the discount margin in basis points (bps) is *closest* to:

- A. 35 bps
- B. 40 bps
- C. 45 bps

Question 11

Of the following, the government equivalent yield *best* describes yield to maturity (YTM):

- A. restated from a 30/360 day-count basis to an actual/actual day-count basis.
- B. calculated based on the actual dates that the bond pays interest and principal.
- C. calculated by assuming that interest and principal are paid on their scheduled dates.

Question 12

Using a 30/360 day-count convention, the discount rate for 90-day commercial paper currently priced at 99 per 100 par value is *closest* to:

- A. 4.00%
- B. 4.04%
- C. 4.06%

Question 13

A floating-rate note will *most likely* be priced at a premium when the quoted margin is:

- A. less than the discount margin.
- B. greater than the reference rate.
- C. greater than the discount margin.

Question 14

An analyst has compiled the following information to compare the yields of three money market instruments:

	Investment X	Investment Y	Investment Z
Day count	360	360	365
Term (in days)	180	90	30
Quoted rate	6.15%	6.20%	6.30%
Rate type	Add-on	Discount	Add-on

If the credit risks are the same, the instrument that offers the *highest* rate of return is:

- A. Investment X.
- B. Investment Y.
- C. Investment Z.

Question 15

A floating-rate note (FRN) pays semiannual coupons based on six-month LIBOR + 0.5% and has a discount margin of 65 basis points at its reset date, 2 years from maturity. If LIBOR is at 4.5%, the FRN's discount on the reset date is *closest* to:

- A. 0.15
- B. 0.28
- C. 0.53

Question 16

An analyst gathers the following information for three money market instruments, all with similar credit risk. Each has a maturity of 270 days:

Money Market Instrument	Quoted Rate	Quoted Basis	Assumed Number of Days in Year	Present Value	Redemption Amount
A	3.80%	Add-on	365	100.0000	102.8110
B	3.75%	Discount	360	97.1875	100.0000
C	3.70%	Add-on	360	100.0000	102.7750

On a bond equivalent basis, which money market instrument offers the *highest* return?

- A. Instrument A
- B. Instrument B
- C. Instrument C

Question 17

Information on two bonds is shown below:

Bond	Current Price	Periodic Coupon Rate	Coupons Per Year	Maturity (Years)
A	102.0	3.0%	2	3
B	101.5	1.5%	4	5

If the bonds are priced on a date when they both pay coupon interest, Bond A's annual percentage rate (APR) is *most likely*:

- A. less than Bond B's.
- B. equal to Bond B's.
- C. greater than Bond B's.

Question 18

A 90-day banker's acceptance has a 365-day assumed year and is offered at USD 500,000 par value. If its redemption amount is USD 511,033 at maturity, its add-on rate is *closest* to:

- A. 2.21%
- B. 8.75%
- C. 8.95%

Question 19

A four-year, 3% coupon bond pays interest quarterly and is priced at 87.43 per 100 of par value. Its yield of 6.60% is based on a periodic rate of 1.65%. The bond's yield based on a periodicity of 2 is *closest* to:

- A. 3.33%
- B. 3.43%
- C. 6.65%

Question 20

For money market instruments, add-on rates *most likely*:

- A. understate total return.
- B. are used to compute bond-equivalent yields.
- C. provide a money market instrument's compounded rate of return.

Question 21

A new issue of 270-day commercial paper is priced at 96 per 100 of par value. Using a 360-day year, the discount interest rate at issuance is *closest* to:

- A. 5.33%
- B. 5.41%
- C. 5.56%