7.15 Credit Analysis for Government Issuers

Question 1
Compared to default risk, spread risk is a more important consideration for a US-based investor evaluating which of the following bonds?
A. US Treasury bonds
B. High-yield corporate bonds
C. Investment-grade corporate bonds

Question 2
Which of the following debts issued by the sovereignty of a developing economy is *least likely* to default?
A. USD-denominated debt issued in the US
B. USD-denominated debt issued in the Eurobond market
C. Local currency-denominated debt issued in the domestic market

Question 3
If an investor is most concerned about being able to legally enforce payment of principal and interest in the event of default, which of the following bonds represents the *least appropriate* investment choice?
A. Sovereign debt
B. High-yield corporate
C. Nonsovereign revenue

Question 4
The credit risk of nonsovereign government revenue bonds is *most likely* based on:
A. project net operating cash flow.
B. a full faith and credit guarantee.
C. income and sales tax revenues.

Question 5
A high-yield bond issuer has a "top-heavy" capital structure. The owner of the company's senior unsecured debt *most likely* has a:
A. smaller probability that a default occurs.
B. lower rate of recovery in the event of default.
C. higher rate of recovery in the event of default.

Question 6
Compared with yield spreads between investment-grade bonds and government bonds, yield spreads between high-yield bonds and governments are *most likely*:
A. wider and less volatile.
B. wider and more volatile.
C. narrower and more volatile.