

### Question #1 of 107

Question ID: 1458743

A bond has a modified duration of 7 and convexity of 100. If interest rates decrease by 1%, the price of the bond will *most likely*:

- A) decrease by 7.5%.
  - B) increase by 6.5%.
  - C) increase by 7.5%.
- 

### Question #2 of 107

Question ID: 1458735

The price of a bond is equal to \$101.76 if the term structure of interest rates is flat at 5%. The following bond prices are given for up and down shifts of the term structure of interest rates. Using the following information what is the approximate percentage price change of the bond using effective duration and assuming interest rates decrease by 0.5%?

Bond price: \$98.46 if term structure of interest rates is flat at 6%

Bond price: \$105.56 if term structure of interest rates is flat at 4%

- A) 1.74%.
  - B) 0.174%.
  - C) 0.0087%.
- 

### Question #3 of 107

Question ID: 1458732

Given a bond with a modified duration of 1.93, if required yields increase by 50 basis points, the price would be expected to decrease by:

- A) 1.930%.
  - B) 0.965%.
  - C) 0.009%.
-

**Question #4 of 107**

Question ID: 1458761

The approach to estimating duration that relies on using historical relationships between benchmark yield changes and bond price changes is:

- A)** modified duration.
  - B)** analytical duration.
  - C)** empirical duration.
- 

**Question #5 of 107**

Question ID: 1458668

Calculate the effective duration for a 7-year bond with the following characteristics:

- Current price of \$660
- A price of \$639 when the yield curve shifts up 50 basis points
- A price of \$684 when the yield curve shifts down by 50 basis points

- A)** 6.5.
  - B)** 6.8.
  - C)** 3.1.
- 

**Question #6 of 107**

Question ID: 1462944

On Monday, the yield curve is upward sloping with yields of 3%, 4%, and 5.5% on 1-year, 5-year, and 10-year government bonds, respectively. The following day, the yield curve experiences an upward parallel shift equal to 50 basis points. Other things equal, which of the following noncallable 6% coupon bonds is likely to experience the smallest percent change in price as a result of the yield curve shift?

- A)** Zero coupon government bond maturing in five years.
  - B)** Par value government bond maturing in five years.
  - C)** Par value government bond maturing in ten years.
-

### Question #7 of 107

Question ID: 1458674

A non-callable bond with 10 years remaining maturity has an annual coupon of 5.5% and a \$1,000 par value. The yield to maturity on the bond is 4.7%. Which of the following is *closest* to the estimated price change of the bond using duration if rates rise by 75 basis points?

- A) -\$61.10.
  - B) -\$5.68.
  - C) -\$47.34.
- 

### Question #8 of 107

Question ID: 1458733

A callable bond trading at \$1,000 has an effective duration of 5 and modified duration of 6. If the market yield increases by 1% the bond's price will decrease by approximately:

- A) \$60.
  - B) \$50.
  - C) \$55.
- 

### Question #9 of 107

Question ID: 1458758

Price risk will dominate reinvestment risk when the investor's:

- A) duration gap is negative.
  - B) duration gap is positive.
  - C) investment horizon is less than the bond's tenor.
- 

### Question #10 of 107

Question ID: 1462941

Annual Macaulay duration is *least accurately* interpreted as the:

- A) weighted average number of years until a bond's cash flows are scheduled to be paid.

- B) approximate percentage change in a bond's value for a 1% change in its yield to maturity.
  - C) investment horizon at which a bond's market price risk and reinvestment risk exactly offset.
- 

### Question #11 of 107

Question ID: 1458689

Sensitivity of a bond's price to a change in yield at a specific maturity is *least appropriately* estimated by using:

- A) effective duration.
  - B) key rate duration.
  - C) partial duration.
- 

### Question #12 of 107

Question ID: 1458720

An annual-pay bond is priced at 101.50. If its yield to maturity decreases 100 basis points, its price will increase to 105.90. If its yield to maturity increases 100 basis points, its price will decrease to 97.30. The bond's approximate modified convexity is *closest to*:

- A) 0.2.
  - B) 19.7.
  - C) 4.2.
- 

### Question #13 of 107

Question ID: 1458728

Negative effective convexity will *most likely* be exhibited by a:

- A) callable bond at high yields.
  - B) callable bond at low yields.
  - C) puttable bond at high yields.
-

**Question #14 of 107**

Question ID: 1458756

An investor who buys bonds that have a Macaulay duration less than his investment horizon:

- A)** has a negative duration gap.
  - B)** is minimizing reinvestment risk.
  - C)** will benefit from decreasing interest rates.
- 

**Question #15 of 107**

Question ID: 1458708

Which of the following is a limitation of the portfolio duration measure? Portfolio duration only considers:

- A)** a linear approximation of the actual price-yield function for the portfolio.
  - B)** a nonparallel shift in the yield curve.
  - C)** the market values of the bonds.
- 

**Question #16 of 107**

Question ID: 1462942

All else equal, which of the following is *least likely* to increase the interest rate risk of a bond?

- A)** Inclusion of a call feature.
  - B)** A longer maturity.
  - C)** A decrease in the YTM.
- 

**Question #17 of 107**

Question ID: 1462947

Martina Whittaker runs a fixed-income portfolio that contains a \$12 million full price position in the corporate bonds of Dewey Treadmills. Whittaker is concerned that interest rates are likely to rise and has calculated an annual modified duration of 8.0 for the Dewey bonds. The money duration of the position in Dewey bonds is *closest* to:

- A) \$9.6 million.
  - B) \$48.0 million.
  - C) \$96.0 million.
- 

### Question #18 of 107

Question ID: 1458692

Which of the following bonds has the *highest* interest rate sensitivity? A:

- A) five year, 5% coupon bond callable in one year.
  - B) ten year, option-free 4% coupon bond.
  - C) ten year, option-free 6% coupon bond.
- 

### Question #19 of 107

Question ID: 1458737

A bond has a duration of 10.62 and a convexity of 182.92. For a 200 basis point increase in yield, what is the approximate percentage price change of the bond?

- A) -1.62%.
  - B) -17.58%.
  - C) -24.90%.
- 

### Question #20 of 107

Question ID: 1462943

All other things being equal, which of the following bonds has the greatest duration?

- A) 5-year, 8% coupon bond.
  - B) 15-year, 8% coupon bond.
  - C) 15-year, 12% coupon bond.
- 

### Question #21 of 107

Question ID: 1458711

Which of the following is *least likely* an advantage of estimating the duration of a bond portfolio as a weighted average of the durations of the bonds in the portfolio?

- A)** It can be used when the portfolio contains bonds with embedded options.
  - B)** It is theoretically more sound than the alternative.
  - C)** It is easier to calculate than the alternative.
- 

### Question #22 of 107

Question ID: 1462949

A bond priced at par (\$1,000) has a modified duration of 8 and a convexity of 100. If interest rates fall 50 basis points, the new price will be *closest* to:

- A)** \$1,041.25.
  - B)** \$875.00.
  - C)** \$958.75.
- 

### Question #23 of 107

Question ID: 1458697

In comparing the price volatility of puttable bonds to that of option-free bonds, a puttable bond will have:

- A)** less price volatility at higher yields.
  - B)** less price volatility at low yields.
  - C)** more price volatility at higher yields.
- 

### Question #24 of 107

Question ID: 1458659

If the coupon payments are reinvested at the coupon rate during the life of a bond, then the yield to maturity:

- A)** is greater than the realized yield.
- B)** is less than the realized yield.

C) may be greater or less than the realized yield.

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### Question #25 of 107

Question ID: 1458726

How does the price-yield relationship for a callable bond compare to the same relationship for an option-free bond? The price-yield relationship is *best* described as exhibiting:

- A) negative convexity at low yields for the callable bond and positive convexity for the option-free bond.
  - B) negative convexity for the callable bond and positive convexity for an option-free bond.
  - C) the same convexity for both bond types.
- 

### Question #26 of 107

Question ID: 1458741

Consider a bond with modified duration of 5.61 and convexity of 43.84. Which of the following is *closest* to the estimated percentage price change in the bond for a 75 basis point decrease in interest rates?

- A) 4.12%.
  - B) 4.21%.
  - C) 4.33%.
- 

### Question #27 of 107

Question ID: 1458657

An investor purchases a 4-year, 6%, semiannual-pay Treasury note for \$9,485. The security has a par value of \$10,000. To realize a total return equal to 7.515% (its yield to maturity), all payments must be reinvested at a return of:

- A) more than 7.515%.
- B) less than 7.515%.
- C) 7.515%.



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**Question #28 of 107**

Question ID: 1458725

Which of the following is *most* accurate about a bond with positive convexity?

- A) Positive changes in yield lead to positive changes in price.
  - B) Price increases and decreases at a faster rate than the change in yield.
  - C) Price increases when yields drop are greater than price decreases when yields rise by the same amount.
- 

**Question #29 of 107**

Question ID: 1458760

When using duration and convexity to estimate the effect on a bond's value of changes in its credit spread, an analyst should *most appropriately* use:

- A) a convexity measure that has been adjusted for the bond's credit risk.
  - B) Macaulay duration rather than modified duration.
  - C) the same method used when estimating the effect of changes in yield.
- 

**Question #30 of 107**

Question ID: 1458715

The price value of a basis point (PVBp) for a 18 year, 8% annual pay bond with a par value of \$1,000 and yield of 9% is *closest* to:

- A) \$0.44.
  - B) \$0.80.
  - C) \$0.82.
- 

**Question #31 of 107**

Question ID: 1458740

Assume that a straight bond has a duration of 1.89 and a convexity of 32. If interest rates decline by 1% what is the total estimated percentage price change of the bond?

- A) 1.56%.
  - B) 1.89%.
  - C) 2.05%.
- 

### Question #32 of 107

Question ID: 1458661

Tony Horn, CFA, is evaluating two bonds. The first bond, issued by Kano Corp., pays a 7.5% annual coupon and is priced to yield 7.0%. The second bond, issued by Samuel Corp., pays a 7.0% annual coupon and is priced to yield 8.0%. Both bonds mature in ten years. If Horn can reinvest the annual coupon payments from either bond at 7.5%, and holds both bonds to maturity, his return will be:

- A) greater than 7.0% on the Kano bonds and greater than 8.0% on the Samuel bonds.
  - B) greater than 7.0% on the Kano bonds and less than 8.0% on the Samuel bonds.
  - C) less than 7.0% on the Kano bonds and less than 8.0% on the Samuel bonds.
- 

### Question #33 of 107

Question ID: 1458677

Consider a 25-year, \$1,000 par semiannual-pay bond with a 7.5% coupon and a 9.25% YTM. Based on a yield change of 50 basis points, the approximate modified duration of the bond is *closest to*:

- A) 10.03.
  - B) 12.50.
  - C) 8.73.
- 

### Question #34 of 107

Question ID: 1458696

Holding other factors constant, the interest rate risk of a coupon bond is higher when the bond's:

- A) coupon rate is higher.

- B)** current yield is higher.
  - C)** yield to maturity is lower.
- 

### Question #35 of 107

Question ID: 1458699

An international bond investor has gathered the following information on a 10-year, annual-pay U.S. corporate bond:

- Currently trading at par value
- Annual coupon of 10%
- Estimated price if rates increase 50 basis points is 96.99%
- Estimated price if rates decrease 50 basis points is 103.14%

The bond's modified duration is *closest* to:

- A)** 3.14.
  - B)** 6.15.
  - C)** 6.58.
- 

### Question #36 of 107

Question ID: 1458710

The price value of a basis point (PVBP) for a bond is most accurately described as:

- A)** an estimate of the curvature of the price-yield relationship for a small change in yield.
  - B)** the product of a bond's value and its duration.
  - C)** the change in the price of the bond when its yield changes by 0.01%.
- 

### Question #37 of 107

Question ID: 1458687

Key rate duration is *best* described as a measure of price sensitivity to a:

- A)** change in a bond's cash flows.
- B)** change in yield at a single maturity.

C) parallel shift in the benchmark yield curve.

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### Question #38 of 107

Question ID: 1458709

Donald McKay, CFA, is analyzing a client's fixed income portfolio. As of the end of the last quarter, the portfolio had a market value of \$7,545,000 and a portfolio duration of 6.24. McKay is predicting that the yield for all of the securities in the portfolio will decline by 25 basis points next quarter. If McKay's prediction is accurate, the market value of the portfolio:

- A) at the end of the next quarter will be approximately \$7,427,300.
  - B) will increase by approximately \$117,700.
  - C) will increase by approximately 6.24%.
- 

### Question #39 of 107

Question ID: 1458693

Which of the following statements about an embedded call feature in a bond is *least* accurate? The call feature:

- A) exposes investors to additional reinvestment rate risk.
  - B) reduces the bond's capital appreciation potential.
  - C) increases the bond's duration, increasing price risk.
- 

### Question #40 of 107

Question ID: 1458746

An analyst gathered the following information about a 15-year bond:

- 10% semiannual coupon.
- Modified duration of 7.6 years.

If the market yield rises 75 basis points, the bond's approximate price change is a:

- A) 5.4% decrease.
- B) 5.4% increase.
- C) 5.7% decrease.

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**Question #41 of 107**

Question ID: 1458739

An investor gathered the following information about an option-free U.S. corporate bond:

- Par Value of \$10 million
- Convexity of 90
- Duration of 7

If interest rates increase 2% (200 basis points), the bond's percentage price change is *closest* to:

- A)** -12.2%.
  - B)** -14.0%.
  - C)** -15.8%.
- 

**Question #42 of 107**

Question ID: 1462948

If interest rates decrease by 50 basis points, a 10-year, 6% coupon, option-free bond will increase in price by \$36. If instead interest rates increase by 50 basis points, this bond's price will decrease by:

- A)** \$36.
  - B)** less than \$36.
  - C)** more than \$36.
- 

**Question #43 of 107**

Question ID: 1458762

For a portfolio consisting solely of short-term U.S. government bonds:

- A)** estimates of empirical and analytical durations should be similar.
  - B)** empirical duration will be significantly lower than analytical duration.
  - C)** analytical duration would be the preferable risk measure.
-

**Question #44 of 107**

Question ID: 1458678

At relatively high yields, the effective duration for a puttable bond, compared to the effective duration of an otherwise identical option-free bond, is *most likely*:

- A) the same.
  - B) lower.
  - C) higher.
- 

**Question #45 of 107**

Question ID: 1458700

When interest rates increase, the modified duration of a 30-year bond selling at a discount:

- A) decreases.
  - B) does not change.
  - C) increases.
- 

**Question #46 of 107**

Question ID: 1458673

A bond's yield to maturity decreases from 8% to 7% and its price increases by 6%, from \$675.00 to \$715.50. The bond's effective duration is *closest to*:

- A) 5.0.
  - B) 6.0.
  - C) 7.0.
- 

**Question #47 of 107**

Question ID: 1462940

An option-free 5-year 6% annual-pay bond is selling \$979.22 per \$1,000 of par value and has a Macaulay duration of 4.4587. The bond's modified duration is *closest to*:

- A) 4.187.
- B) 4.206.

C) 4.246.

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**Question #48 of 107**

Question ID: 1458751

The term structure of yield volatility illustrates the relationship between yield volatility and:

- A) yield to maturity.
  - B) time to maturity.
  - C) Macaulay duration.
- 

**Question #49 of 107**

Question ID: 1458666

The price of a bond is equal to \$101.76 if the term structure of interest rates is flat at 5%.  
The following bond prices are given for up and down shifts of the term structure of interest rates. Using the following information what is the effective duration of the bond?

Bond price: \$98.46 if term structure of interest rates is flat at 6%

Bond price: \$105.56 if term structure of interest rates is flat at 4%

- A) 3.49.
  - B) 1.74.
  - C) 1.56.
- 

**Question #50 of 107**

Question ID: 1458742

A bond has a convexity of 51.44. What is the approximate percentage price change of the bond due to convexity if rates rise by 150 basis points?

- A) 0.26%.
  - B) 0.58%.
  - C) 0.71%.
-

**Question #51 of 107**

Question ID: 1458719

A bond is priced at 95.80. Using a pricing model, an analyst estimates that a 25 bp parallel upward shift in the yield curve would decrease the bond's price to 94.75, while a 25 bp parallel downward shift in the yield curve would increase its price to 96.75. The bond's effective convexity is *closest to*:

- A) 3,340.
  - B) -167.
  - C) 4.
- 

**Question #52 of 107**

Question ID: 1458669

An investor finds that for a 1% increase in yield to maturity, a bond's price will decrease by 4.21% compared to a 4.45% increase in value for a 1% decline in YTM. If the bond is currently trading at par value, the bond's approximate modified duration is *closest to*:

- A) 4.33.
  - B) 43.30.
  - C) 8.66.
- 

**Question #53 of 107**

Question ID: 1458714

The price value of a basis point (PVBP) for a 7-year, 10% semiannual pay bond with a par value of \$1,000 and yield of 6% is *closest to*:

- A) \$0.92.
  - B) \$0.64.
  - C) \$0.28.
- 

**Question #54 of 107**

Question ID: 1458695



Suppose the term structure of interest rates makes an instantaneous parallel upward shift of 100 basis points. Which of the following securities experiences the largest change in value? A five-year:

- A)** coupon bond with a coupon rate of 5%.
  - B)** floating rate bond.
  - C)** zero-coupon bond.
- 

### Question #55 of 107

Question ID: 1458688

Which of the following duration measures is *most appropriate* if an analyst expects a non-parallel shift in the yield curve?

- A)** Effective duration.
  - B)** Key rate duration.
  - C)** Modified duration.
- 

### Question #56 of 107

Question ID: 1458662

Assuming the issuer does not default, can capital gains or losses be a component of the holding period return on a zero-coupon bond that is sold prior to maturity?

- A)** No, because amortization of the discount is interest income.
  - B)** Yes, because the bond's yield to maturity may have changed.
  - C)** Yes, because the purchase price is less than the bond's value at maturity.
- 

### Question #57 of 107

Question ID: 1458675

For large changes in yield, which of the following statements about using duration to estimate price changes is *most accurate*? Duration alone:

- A)** overestimates the increase in price for decreases in yield.
- B)** overestimates the increase in price for increases in yield.

C) underestimates the increase in price for decreases in yield.

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**Question #58 of 107**

Question ID: 1462939

The approximate modified duration of an option-free 20-year 7% annual-pay par bond based on a 25 basis point change in yield is *closest* to:

- A) 5.3.
  - B) 10.6.
  - C) 13.7.
- 

**Question #59 of 107**

Question ID: 1458686

The appropriate measure of interest rate sensitivity for bonds with an embedded option is:

- A) effective duration.
  - B) Macaulay duration.
  - C) modified duration.
- 

**Question #60 of 107**

Question ID: 1458716

A \$100,000 par value bond has a full price of \$99,300, a Macaulay duration of 6.5, and an annual modified duration of 6.1. The bond's money duration per \$100 par value is *closest to*:

- A) \$6.06.
  - B) \$606.
  - C) \$645.
- 

**Question #61 of 107**

Question ID: 1462950

Wendy Jones, CFA, is reviewing a current bond holding. The bond's duration is 10 and its convexity is 200. Jones believes that interest rates will decrease by 100 basis points. If Jones's forecast is accurate, the bond's price will change by approximately:

- A) -8.0%.
  - B) +11.0%.
  - C) +8.0%.
- 

### Question #62 of 107

Question ID: 1458702

An analyst has stated that, holding all else constant, an increase in the maturity of a coupon bond will typically increase its interest rate risk, and that a decrease in the coupon rate of a coupon bond will typically decrease its interest rate risk. The analyst is correct with respect to:

- A) only one of these effects.
  - B) both of these effects.
  - C) neither of these effects.
- 

### Question #63 of 107

Question ID: 1458667

A noncallable bond with seven years remaining to maturity is trading at 108.1% of par value and has an 8.5% coupon. If interest rates rise 50 basis points, the bond's price will fall to 105.3% and if rates fall 50 basis points, the bond's price will rise to 111.0%. Which of the following is *closest* to the effective duration of the bond?

- A) 5.27.
  - B) 5.54.
  - C) 6.12.
- 

### Question #64 of 107

Question ID: 1458730

Jayce Arnold, a CFA candidate, considers a \$1,000 face value, option-free bond issued at par. Which of the following statements about the bond's dollar price behavior is *most likely* accurate when yields rise and fall by 200 basis points, respectively? Price will:

- A)** decrease by \$124, price will increase by \$149.
  - B)** decrease by \$149, price will increase by \$124.
  - C)** increase by \$149, price will decrease by \$124.
- 

### Question #65 of 107

Question ID: 1458745

Vantana Inc. has a bond outstanding with a modified duration of 5.3 and approximate convexity of 110. If yields increase by 1%, the bond price will:

- A)** decrease by less than 5.3%.
  - B)** decrease by more than 5.3%.
  - C)** increase by more than 5.3%.
- 

### Question #66 of 107

Question ID: 1458698

Which of the following bonds is *most likely* to exhibit the greatest volatility due to interest rate changes? A bond with a:

- A)** high coupon and a long maturity.
  - B)** low coupon and a long maturity.
  - C)** low coupon and a short maturity.
- 

### Question #67 of 107

Question ID: 1458731

A non-callable bond has a modified duration of 7.26. Which of the following is the *closest* to the approximate price change of the bond with a 25 basis point increase in rates?

- A)** -0.018%.
- B)** 1.820%.

C) -1.820%.

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### Question #68 of 107

Question ID: 1462938

A bond has an effective duration of 7.5. If the bond yield changes by 100 basis points, the price of the bond will change by:

- A) approximately 0.75%.
  - B) approximately 7.5%.
  - C) exactly 0.75%.
- 

### Question #69 of 107

Question ID: 1458701

What happens to bond durations when coupon rates increase and maturities increase?

As coupon rates increase, duration:

As maturities increase, duration:

- |              |           |
|--------------|-----------|
| A) decreases | decreases |
| B) decreases | increases |
| C) increases | increases |
- 

### Question #70 of 107

Question ID: 1458694

Which of the following bonds has the shortest duration? A bond with a:

- A) 10-year maturity, 6% coupon rate.
  - B) 20-year maturity, 6% coupon rate.
  - C) 10-year maturity, 10% coupon rate.
- 

### Question #71 of 107

A 9-year corporate bond with a 3.25% coupon is priced at 103.96. This bond's duration and convexity are 7.8 and 69.8. If the bond's yield increases by 100 basis points, the impact on the bondholder's return is *closest to*:

- A) +8.15%.
  - B) -7.45%.
  - C) -7.80%.
- 

**Question #72 of 107**

Question ID: 1458752

Duration and convexity are *most likely* to produce more accurate estimates of interest rate risk when the term structure of yield volatility is:

- A) flat.
  - B) downward sloping.
  - C) upward sloping.
- 

**Question #73 of 107**

Question ID: 1458757

An investor purchases a fixed coupon bond with a Macaulay duration of 5.3. The bond's yield to maturity decreases before the first coupon payment. If the YTM then remains constant and the investor sells the bond after three years, the realized yield will be:

- A) equal to the YTM at the date of purchase.
  - B) higher than the YTM at the date of purchase.
  - C) lower than the YTM at the date of purchase.
- 

**Question #74 of 107**

Question ID: 1458663

Sarah Metz buys a 10-year bond at a price below par. Three years later, she sells the bond. Her capital gain or loss is measured by comparing the price she received for the bond to its:

- A) carrying value.
  - B) original price less amortized discount.
  - C) original purchase price.
- 

### Question #75 of 107

Question ID: 1458658

All else being equal, which of the following bond characteristics *most likely* results in less reinvestment risk?

- A) A shorter maturity.
  - B) A higher coupon.
  - C) A lower Macaulay duration.
- 

### Question #76 of 107

Question ID: 1458660

If the yield to maturity on a bond decreases after purchase but before the first coupon date and the bond is held to maturity, reinvestment risk is:

- A) less than price risk and the realized yield will be lower than the YTM at purchase.
  - B) less than price risk and the realized yield will be higher than the YTM at purchase.
  - C) greater than price risk and the realized yield will be lower than the YTM at purchase.
- 

### Question #77 of 107

Question ID: 1458748

A UK 12-year corporate bond with a 4.25% coupon is priced at £107.30. This bond's duration and convexity are 9.5 and 107.2. If the bond's yield decreases by 125 basis points, the estimated price of the bond is *closest to*:

- A) £112.72.
  - B) £121.84.
  - C) £120.95.
-

**Question #78 of 107**

Question ID: 1458713

Which of the following is *most likely* to be the money duration of newly issued 360-day eurocommercial paper?

- A) 360 days.
  - B) 4.3%.
  - C) €25 million.
- 

**Question #79 of 107**

Question ID: 1458676

Which of the following statements regarding the risks inherent in bonds is *most accurate*?

- A) The reinvestment rate assumption in calculating bond yields is generally not significant to the bond's yield.
  - B) Interest rate risk is the risk that the coupon rate will be adjusted downward if market rates decline.
  - C) Default risk deals with the likelihood that the issuer will fail to meet its obligations as specified in the indenture.
- 

**Question #80 of 107**

Question ID: 1458727

For a given change in yields, the difference between the actual change in a bond's price and that predicted using duration alone will be greater for:

- A) a bond with greater convexity.
  - B) a bond with less convexity.
  - C) a short-term bond.
- 

**Question #81 of 107**

Question ID: 1458755



An investor buys a bond that has a Macaulay duration of 3.0 and a yield to maturity of 4.5%. The investor plans to sell the bond after three years. If the yield curve has a parallel downward shift of 100 basis points immediately after the investor buys the bond, her annualized horizon return is *most likely* to be:

- A) approximately 4.5%.
  - B) greater than 4.5%.
  - C) less than 4.5%.
- 

### Question #82 of 107

Question ID: 1458656

Jane Walker has set a 7% yield as the goal for the bond portion of her portfolio. To achieve this goal, she has purchased a 7%, 15-year corporate bond at a discount price of 93.50. What amount of reinvestment income will she need to earn over this 15-year period to achieve a compound return of 7% on a semiannual basis?

- A) \$459.
  - B) \$624.
  - C) \$574.
- 

### Question #83 of 107

Question ID: 1458754

Which measure of duration should be matched to the bondholder's investment horizon so that reinvestment risk and market price risk offset each other?

- A) Effective duration.
  - B) Macaulay duration.
  - C) Modified duration.
- 

### Question #84 of 107

Question ID: 1462945

A fixed-income portfolio manager is estimating portfolio duration based on the weighted average of the durations of each bond in the portfolio. The manager should calculate duration using:

- A)** equal-sized increases and decreases in the portfolio's cash flow yield.
  - B)** equal-sized increases and decreases in a benchmark bond's yield.
  - C)** parallel shifts of the benchmark yield curve.
- 

### Question #85 of 107

Question ID: 1458685

Effective duration is more appropriate than modified duration as a measure of a bond's price sensitivity to yield changes when:

- A)** the bond contains embedded options.
  - B)** the bond has a low coupon rate and a long maturity.
  - C)** yield curve changes are not parallel.
- 

### Question #86 of 107

Question ID: 1462937

Compared to a bond's Macaulay duration, its modified duration:

- A)** may be lower or higher.
  - B)** is lower.
  - C)** is higher.
- 

### Question #87 of 107

Question ID: 1458670

A non-callable bond with 4 years remaining maturity has an annual coupon of 12% and a \$1,000 par value. The current price of the bond is \$1,063.40. Given a parallel shift in the yield curve of 50 basis points, which of the following is *closest* to the effective duration of the bond?

- A)** 2.94.

**B)** 3.11.

**C)** 3.27.

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### Question #88 of 107

Question ID: 1462936

An investment advisor states, "An investor's annualized holding period return from investing in a bond consists of three parts: the coupon interest payments, the return of principal, and any capital gain or loss that the investor realizes on the bond." The advisor is:

**A)** correct.

**B)** incorrect, because these are not the only sources of return from investing in a bond.

**C)** incorrect, because an investor who holds a bond to maturity will not realize a capital gain or loss.

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### Question #89 of 107

Question ID: 1462946

The current price of a \$1,000 par value, 6-year, 4.2% semiannual coupon bond is \$958.97. The bond's price value of a basis point is *closest* to:

**A)** \$5.01.

**B)** \$4.20.

**C)** \$0.50.

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### Question #90 of 107

Question ID: 1458721

A \$1,000 face, 10-year, 8.00% semi-annual coupon, option-free bond is issued at par (market rates are thus 8.00%). Given that the bond price decreased 10.03% when market rates increased 150 basis points (bp), if market yields decrease by 150 bp, the bond's price will:

**A)** decrease by more than 10.03%.

**B)** increase by more than 10.03%.

**C)** increase by 10.03%.

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**Question #91 of 107**

Question ID: 1458706

Given the three bonds listed here, which bond has the *most* interest rate risk?

- A)** 8-year maturity, 12.0% coupon.
  - B)** 24-year maturity, 5.0% coupon.
  - C)** 8-year maturity, 5.5% coupon.
- 

**Question #92 of 107**

Question ID: 1458734

A bond has the following characteristics:

- Maturity of 30 years
- Modified duration of 16.9 years
- Yield to maturity of 6.5%

If the yield to maturity *decreases* by 0.75%, what will be the percentage change in the bond's price?

- A)** +12.675%.
  - B)** 0.750%.
  - C)** -12.675%.
- 

**Question #93 of 107**

Question ID: 1458707

A bond portfolio consists of a AAA bond, a AA bond, and an A bond. The prices of the bonds are \$1,050, \$1,000, and \$950 respectively. The durations are 8, 6, and 4 respectively. What is the duration of the portfolio?

- A)** 6.00.
  - B)** 6.07.
  - C)** 6.67.
-

**Question #94 of 107**

Question ID: 1458671

A 30-year semi-annual coupon bond issued today with market rates at 6.75% pays a 6.75% coupon. If the market yield declines by 30 basis points, the price increases to \$1,039.59. If the market yield rises by 30 basis points, the price decreases to \$962.77. The bond's approximate modified duration is *closest* to:

- A) 1.3%.
  - B) 12.8%.
  - C) 3.9%.
- 

**Question #95 of 107**

Question ID: 1458759

Which of the following is *least likely* to increase a bond's yield spread to the benchmark yield curve?

- A) Credit rating downgrade.
  - B) Decrease in liquidity.
  - C) Increase in expected inflation.
- 

**Question #96 of 107**

Question ID: 1458722

Which of the following statements *best* describes the concept of negative convexity in bond prices? As interest rates:

- A) fall, the bond's price increases at a decreasing rate.
  - B) fall, the bond's price increases at an increasing rate.
  - C) rise, the bond's price decreases at a decreasing rate.
- 

**Question #97 of 107**

Question ID: 1458690

Which of the following statements concerning the price volatility of bonds is *most* accurate?

**A)** Bonds with higher coupons have lower interest rate risk.

**B)** As the yield on callable bonds approaches the coupon rate, the bond's price will approach a "floor" value.

**C)** Bonds with longer maturities have lower interest rate risk.

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### Question #98 of 107

Question ID: 1458753

If the term structure of yield volatility slopes upward:

**A)** long-term interest rates are more variable than short-term interest rates.

**B)** short-term interest rates are less than long-term interest rates.

**C)** forward interest rates are higher than spot interest rates.

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### Question #99 of 107

Question ID: 1458724

Adjusting for convexity improves an estimated price change for a bond compared to using duration alone because:

**A)** it measures the volatility of non-callable bonds.

**B)** the slope of the callable bond price/yield curve is backward bending at high interest rates.

**C)** the slope of the price/yield curve is not constant.

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### Question #100 of 107

Question ID: 1458723

Negative convexity is *most likely* to be observed in:

**A)** callable bonds.

**B)** government bonds.

**C)** zero coupon bonds.

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**Question #101 of 107**

Question ID: 1458665

Assume that the current price of an annual-pay bond is 102.50 per 100 of face value. If its YTM increases by 0.5% the value of the bond decreases to 100 and if its YTM decreases by 0.5% the price of the bond increases to 105.5. What is the approximate modified duration of the bond?

- A) 5.37.
  - B) 5.48.
  - C) 5.50.
- 

**Question #102 of 107**

Question ID: 1458744

A bond's duration is 4.5 and its convexity is 87.2. If interest rates rise 100 basis points, the bond's percentage price change is *closest* to:

- A) -4.06%.
  - B) -4.50%.
  - C) -4.94%.
- 

**Question #103 of 107**

Question ID: 1458684

An investor gathered the following information on two U.S. corporate bonds:

- Bond J is callable with maturity of 5 years
- Bond J has a par value of \$10,000
- Bond M is option-free with a maturity of 5 years
- Bond M has a par value of \$1,000

For each bond, which duration calculation should be applied?

Bond JBond M

- A) Effective Duration    Effective Duration only

- B)** Effective Duration      Modified Duration or  
Effective Duration
- C)** Modified Duration      Effective Duration only
- 

### Question #104 of 107

Question ID: 1458738

If a Treasury bond has an annual modified duration of 10.27 and an annual convexity of 143, which of the following is *closest* to the estimated percentage price change in the bond for a 125 basis point increase in interest rates?

- A)** -11.72%.
- B)** -13.96%.
- C)** -9.33%.
- 

### Question #105 of 107

Question ID: 1458691

Which of the following five year bonds has the *highest* interest rate sensitivity?

- A)** Option-free 5% coupon bond.
- B)** Zero-coupon bond.
- C)** Floating rate bond.
- 

### Question #106 of 107

Question ID: 1458672

A bond with a yield to maturity of 8.0% is priced at 96.00. If its yield increases to 8.3% its price will decrease to 94.06. If its yield decreases to 7.7% its price will increase to 98.47. The modified duration of the bond is *closest to*:

- A)** 4.34.
- B)** 2.75.
- C)** 7.66.



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**Question #107 of 107**

Question ID: 1458736

For a given bond, the duration is 8 and the convexity is 100. For a 60 basis point decrease in yield, what is the approximate percentage price change of the bond?

- A)** 2.52%.
- B)** 4.62%.
- C)** 4.98%.