1. **Correct answer: A**

A is correct. Because the security's coupon rate moves in the opposite direction (or inversely) from the risk-free rate, it is an inverse floater. (Specifically, Coupon rate = 12.00% – 2 × Risk-free rate.)

B is incorrect because a deferred coupon bond does not pay interest during the first years of its life.

C is incorrect because a step-up note's coupon rate increases following a predetermined pattern, irrespective of changes in the market index.

2. **Correct answer: B**

B is correct. A fully amortizing mortgage is least likely to contain a balloon payment because the sum of all the scheduled principal repayments during the mortgage's life is such that when the last mortgage payment is made the loan is paid in full.

A is incorrect because in some interest-only mortgages ("bullet" mortgages) there are no scheduled principal repayments over the entire life of the loan. In such cases, the balloon payment is equal to the original loan amount.

C is incorrect because in a partially amortizing mortgage, the sum of all the scheduled principal repayments is less than the amount borrowed where the last payment made is the unpaid mortgage balance, or a balloon payment.

3. **Correct answer: B**

A domestic bond is issued by a local issuer, denominated in local currency, and sold in the domestic market. Gilts are British pound—denominated bonds issued by the U.K. Debt Management Office in the United Kingdom. Thus, they are U.K. domestic bonds. A is incorrect because a bond issued by LG Group from South Korea, denominated in British pounds, and sold in the United Kingdom, is an example of a foreign bond (bulldog bond). C is incorrect because a bond issued by Wal-Mart from the United States, denominated in U.S. dollars, and sold in various countries in North America, Europe, the Middle East, and Asia Pacific is *most likely* an example of a global bond, particularly if it is also sold in the Eurobond market.

4. **Correct answer: A**

Requiring compliance with the existing rules and regulations of foreign governments is administrative in nature and thus an affirmative covenant.

B is incorrect because this is a negative covenant that is likely to materially constrain the firm's operational decisions and is likely to be costly to the firm.

C is incorrect because this is a negative covenant that is likely to materially constrain the firm's operational decisions and is likely to be costly to the firm.

5. **Correct answer: B**

A callable bond benefits the issuer because it gives the issuer the right to redeem all (or part) of the bonds before the maturity date. Thus, the price of a callable bond will typically be lower than the price of an otherwise identical non-callable bond.