

Q-1. The risk that a bond's creditworthiness declines is best described by:

- A. Credit migration risk.
- B. Market liquidity risk.
- C. Spread widening risk.

Q-2. Which bonds most likely rank the highest with respect to priority of claims?

- A. Senior unsecured bond
- B. Subordinated debt
- C. Second lien debt

Q-3. Based on the practice of notching by the rating agencies, a subordinated bond from a company with an issuer rating of BB would likely carry what rating?

- A. B+
- B. BB
- C. BBB

Q-4. If goodwill makes up a large percentage of a company's total assets, this most likely indicates that:

- A. the company has low free cash flow before dividends.
- B. there is a low likelihood that the market price of the company's common stock is below book value.
- C. a large percentage of the company's assets are of low quality.

Q-5. Which of the following is *least likely* a component of yield spread?

- A. Expected inflation rate
- B. Taxation
- C. Credit risk