

Question #1 of 8

Question ID: 439273

The highest speculative grade rating assigned by Moody's is:

- ☐ A) B.
- ☒ B) Ba.
- ☐ C) Caa.
- ☐ D) Baa.

Explanation

In Moody's rating scheme, Aaa, Aa, A, and Baa are investment grade ratings. The highest speculative grade rating is Ba.

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In Moody's credit rating scheme, a B2 would be comparable to what S&P rating?

- ☒ A) B.
- ☐ B) B+.
- ☐ C) Baa.
- ☐ D) B-.

Explanation

Moody's rating scheme uses modifiers 1, 2, and 3 following the letter designation. "1" corresponds with a "+" issued by S&P, "2" corresponds to the letter designation alone in S&P's scheme, and "3" corresponds with a "-" issued by S&P. Thus, B2 in Moody's scheme is comparable to "B" in S&P's scheme.

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In the S&P credit rating scheme, the least risky speculative investment rating is:

- ☐ A) Ba.
- ☒ B) BB.
- ☐ C) Aaa.
- ☐ D) AAA.

Explanation

Any investment rated below BBB is considered to be speculative. Therefore, the highest (least risky) speculative rating as assigned by S&P is BB. Ba is the least risky speculative rating assigned by Moody's.

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In S&P's credit rating scheme, one investment grade rating is:

- X **A) C.**
- X **B) B.**
- ✓ **C) BBB.**
- X **D) BB.**

Explanation

Ratings of AAA, AA, A, and BBB are considered investment grade.

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The empirical evidence regarding the performance of bond ratings assigned by Moody's and Standard and Poor's is **NOT** consistent with a:

- X **A) large increase in incidence of default for speculative versus investment grade securities.**
- ✓ **B) positive correlation between rating and yields.**
- X **C) positive correlation between rating and price.**
- X **D) negative correlation between rating and incidence of default.**

Explanation

Higher ratings are associated with lower yields, thus meaning a negative correlation between yields and ratings.

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Rating agencies are paid fees by the issuers of the securities that they rate. The primary reason that this arrangement has not eroded the credibility of the rating process is:

- ✓ **A) the need for rating agencies to maintain their reputational capital.**
- X **B) the stringent oversight of regulators.**
- X **C) indifference on the part of the investment community.**
- X **D) the transparency of the rating process.**

Explanation

All financial market participants benefit from rating agencies maintaining reputations for independence and objectivity.

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According to Moody's credit rating scheme, a rating below investment grade is:

- X **A) Aa.**
- X **B) Aaa.**
- ✓ **C) Ba.**

X **D)** Baa.

Explanation

A Moody's rating of Ba or lower is considered below investment grade.

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Question ID: 439275

A credit rating of B1 is a rating given by:

X **A) The Bank Credit Rating system.**

X **B)** Standard & Poors.

X **C)** Fitch.

✓ **D)** Moody's.

Explanation

Moody's uses 1, 2, and 3 the same way S&P uses + and -, with 1 equivalent to + and 3 equivalent to -.