Topic 57 to 59

Test ID: 8451132

Question #1 of 35

Question ID: 439448

Which of the following statements about reinvestment risk is *least* accurate?

A) A bond investor can eliminate reinvestment risk by holding a coupon bond until maturity.

B) A bond's yield calculation assumes that coupon cash flows and principal can be reinvested at the computed yield to maturity.

C) Reinvestment risk is greater for amortizing securities.

D) An investor concerned about reinvestment risk is most concerned with a decrease in interest rates.

Question #2 of 35

Question ID: 439460

An investment pays $75 annually into perpetuity and yields 5%. Which of the following is *closest* to the price?

A) $750.

B) $1,500.

C) $1,000.

D) $375.

Question #3 of 35

Question ID: 439456

A zero coupon bond with a face value of $1,000 has a price of $148. It matures in 20 years. Assuming annual compounding periods, the yield to maturity of the bond is:

A) 11.24%.

B) 14.80%.

C) 9.68%.

D) 10.02%.

Question #4 of 35

Question ID: 439449

An investor holds a 20-year, semi-annual 8.00 percent coupon Treasury bond issued at par. Market interest rates are currently at 6.50 percent. The bond is noncallable. A coupon payment is due this week. Which of the following choices *best* represents the type of risk the investor faces?

A) Reinvestment risk.

B) Prepayment risk.

C) Credit risk.

D) Liquidity risk.

Question #5 of 35

Question ID: 439452

When planning to hold a coupon-paying Treasury bond until maturity, which of the following types of risk would be the *most important*?

A) Downgrade.

B) Interest rate.

C) Reinvestment.

D) Default.

Questions #6-9 of 35

Use the following Treasury bond prices to answer the next four questions. Assume the prices are for settlement on June 1, 2005, today's date. Assume semiannual coupon payments:

Coupon	*Maturity*	*Price*
7.500%	12/1/2005	102-9
12.375%	6/1/2006	107-15
6.750%	12/1/2006	104-15
5.000%	6/1/2007	102-9+

Question #6 of 35

Question ID: 439437

The discount factors associated with the bonds maturing in December 2005 and June 2006, are *closest* to:

A) 0.9696/0.9858.

B) 0.9858/0.9546.

C) 0.9778/0.9696.

D) 0.9546/0.9696.

Question #7 of 35

Question ID: 439438

The spot rates associated with the discount factors determined in the previous question are *closest* to:

A) 2.88%/4.70%.

B) 2.25%/4.87%.

C) 1.82%/7.56%.

D) 3.26%/5.87%.

Question #8 of 35

Question ID: 439439

Given the spot rates for the 6-month and 1-year maturing bond, the 6-month forward rate 6 months from now is *closest* to:

A) 6.04%.

B) 5.86%.

C) 6.54%.

D) 7.28%.

Question #9 of 35

Question ID: 439440

The yield to maturity (YTM) for the bond maturing June 2007 is *closest* to:

A) 3.27%.

B) 3.79%.

C) 3.02%.

D) 2.93%.

Questions #10-11 of 35

Use this table for the following questions.

Maturity (Years)	*STRIPS Price*	*Spot Rate*	*Forward Rate*
0.5	98.7654	2.50%	2.50%
1.0	97.0662	3.00%	3.50%
1.5	95.2652	3.26%	3.78%
2.0	93.2775	????%	????%

Question #10 of 35

Question ID: 439446

The 6-month forward rate in 1.5 years (ending in year 2.0) is *closest* to:

A) 4.26%.

B) 4.11%.

C) 4.57%.

D) 4.04%.

Question #11 of 35

Question ID: 439447

The value of a 1.5-year, 6 percent semiannual coupon, $100 par value bond is *closest* to:

A) $103.42.

B) $104.00.

C) $102.19.

D) $105.66.

Questions #12-14 of 35

Use the Treasury bond prices given below for the following four problems. Assume the prices are for settlement on June 1, 2005, today's date. Assume semiannual coupon payments:

Coupon	*Maturity*	*Price*
6.00%	12/1/2005	99-15
7.00%	6/1/2006	98-27+
8.00%	12/1/2006	101-29
9.00%	6/1/2007	102-9

Question #12 of 35

Question ID: 439442

The discount factors associated with the bonds maturing in December 2005 and June 2006, respectively, are *closest* to:

A) 0.9587; 0.9157.

B) 0.9657; 0.9225.

C) 0.9458; 0.9013.

D) 0.9319; 0.8769.

Question #13 of 35

Question ID: 439443

The spot rates associated with the discount factors of the previous problem are *closest* to:

A) 5.48%; 6.78%.

B) 7.10%; 8.23%.

C) 4.87%; 6.23%.

D) 6.26%; 7.05%.

Question #14 of 35

Question ID: 439444

Given the spot rates for the 6-month and 1-year maturing bond, the forward rate inherent in those figures is *closest* to:

A) 6.96%.

B) 9.37%.

C) 4.68%.

D) 5.74%.

Question #15 of 35

Question ID: 439428

Which of the following statements regarding U.S. Treasury issues is *least* accurate?

A) Due to the way Treasury STRIPS are taxed, U.S. investors may face negative cash flows before the maturity date.

B) Investment bankers strip the coupons from Treasury notes and bonds to create zero-coupon securities.

C) The U.S. Treasury issues zero coupon notes, but not bonds.

D) A 5-year Treasury note can be stripped into 11 different zero coupon securities.

Question #16 of 35

Question ID: 439434

If the one-year spot rate is 7 percent and the one-year forward rate is 7.4 percent, what is the two-year spot rate?

A) 7.40%.

B) 7.20%.

C) 7.12 %.

D) 7.27%.

Question #17 of 35

Question ID: 439459

The price of a semiannual pay, $1,000 face value bond with an 8 percent coupon rate with 10 years to maturity that currently yields 6.25 percent is *closest* to:

A) $1,179.40.

B) $1,128.69.

C) $1,000.00.

D) $1,092.38.

Question #18 of 35

Question ID: 439461

A 3-year, 8 percent semiannual coupon bond with $100 par value currently yields 8.50 percent. What would be the price of the bond?

A) $98.70.

B) $95.49.

C) $99.24.

D) $119.50.

Question #19 of 35

Question ID: 439431

Maturity (Years)	*STRIP Price*	*Spot Rate*	*Forward Rate*
0.5	98.7654	2.50%	2.50%
1.0	97.0662	3.00%	3.50%
1.5	95.2652	3.26%	3.78%
2.0	93.2775	?.??%	?.??%

The 2-year spot rate is *closest* to:

A) 3.51%.

B) 3.42%.

C) 3.87%.

D) 4.02%.

Question #20 of 35

Question ID: 440274

Risk management:

A) has no impact on the expected costs of financial distress.

B) has no effect on the need for the firm to hold liquid assets.

C) exacerbates the need for a firm to hold a reserve of liquid assets.

D) is a substitute for investing equity capital in liquid assets.

Question #21 of 35

Question ID: 439432

Assume the one-year spot rate is 4 percent, the two-year spot rate is 4.5 percent, and the three-year spot rate is 5 percent. Which of the following statements is **TRUE**?

A) The one-year rate that will exist two years from today is 5 percent.

B) The one-year rate that will exist one year from today is 5.5 percent.

C) The two-year rate that will exist one year from today is 5.5 percent.

D) The rate that an investor can earn on a sum invested today for the next three years is 5.5 percent.

Question #22 of 35

Question ID: 439453

Consider four bonds that are similar in all features except those shown. The bond with the greatest reinvestment risk is:

A) 5% coupon, callable.

B) 15% coupon, non-callable.

C) 5% coupon, non-callable.

D) 15% coupon, callable.

Question #23 of 35

Question ID: 424464

Which of the following statements about zero-coupon bonds is NOT correct?

A) A zero coupon bond may sell at a premium to par when interest rates decline.

B) The lower the price, the greater the return for a given maturity.

C) A zero-coupon bond provides a single cash flow at maturity equal to its par value.

D) All interest is earned at maturity.

Question #24 of 35

Question ID: 439433

If the five-year spot rate is 6.1 percent and the four-year spot rate is 5.9 percent, what is the only rate that can be computed?

A) The four-year forward rate starting one year from today is 7.4%.

B) The four-year forward rate starting one year from today is 6.9%.

C) The one-year forward rate starting four years from today is 7.4%.

D) The one-year forward rate starting four years from today is 6.9%.

Question #25 of 35

Question ID: 439435

Which of the following statements concerning a forward rate is **FALSE**? A forward rate is:

A) the market's best guess as to an interest rate that will exist in the future.

B) the rate of interest an investor would earn from now until some point in the future.

C) an interest rate that can be locked in for some future time period.

D) the interest rate that makes an investor indifferent to investing over a long time period or investing over two or more shorter time periods.

Question #26 of 35

Question ID: 439463

What is the semiannual-pay bond equivalent yield on an annual-pay bond with a yield to maturity of 12.51 percent?

A) 12.14%.

B) 12.00%.

C) 12.51%.

D) 11.49%.

Question #27 of 35

Question ID: 439430

The Treasury spot rate yield curve is *closest* to which of the following curves?

A) Zero-coupon bond yield curve.

B) Reinvestment rate yield curve.

C) Forward yield curve rate.

D) Par bond yield curve.

Question #28 of 35

Question ID: 439454

A bond with a 12% coupon, 10 years to maturity and selling at 88 has a yield to maturity of:

A) over 14%.

B) between 13% and 14%.

C) between 10% and 12%.

D) between 12% and 13%.

Question #29 of 35

Question ID: 439455

Which of the following statements concerning the yield-to-maturity on a bond is **CORRECT**? Yield to maturity (YTM) is:

A) always larger than current yield of the bond.

B) below the current yield minus capital gain when the bond sells at a discount, and above the current yield plus capital loss when the bond sells at a premium.

C) based on the assumption that any payments received are reinvested at the current yield.

D) the discount rate that will set the present value of the payments equal to the bond price.

Question #30 of 35

Question ID: 439457

A 20-year, 9 percent annual coupon bond selling for $1,098.96 offers a yield of:

A) 11%.

B) 10%.

C) 9%.

D) 8%.

Question #31 of 35

Question ID: 439429

Which of the following is most accurate in relation to P-STRIPS and shorter term C-STRIPS?

A) P-STRIPS: Trade at fair value; C-STRIPS: Trade cheap.

B) P-STRIPS: Trade at fair value; C-STRIPS: Trade rich.

C) P-STRIPS: Trade rich; C-STRIPS: Trade at fair value.

D) P-STRIPS: Trade rich; C-STRIPS: Trade rich.

Question #32 of 35

Question ID: 439462

A 16-year, 11 percent semiannual coupon bond with $100 par value currently yields 8 percent. **Compute** the price of the bond.

A) $109.54.

B) $129.50.

C) $126.81.

D) $95.91.

Question #33 of 35

Question ID: 439458

What is the yield to maturity (YTM) of a 20-year, U.S. zero-coupon bond selling for $300?

A) 5.90%.

B) 7.20%.

C) 6.11%.

D) 3.06%.

Question #34 of 35

Question ID: 439451

Which of the following statements relating to reinvestment risk for bonds is **TRUE**?

A) Long-term bonds should be purchased if the investor anticipates higher reinvestment rates.

B) Zero coupon bonds have no reinvestment risk over their term.

C) Unless the reinvestment rate equals the yield to maturity, the holding period return will be less than the yield to maturity.

D) If the investor anticipates lower reinvestment rates, high coupon bonds should be purchased.

Question #35 of 35

Question ID: 439450

The risk that an investor will earn less than the quoted yield-to-maturity on a fixed-coupon bond due to a decrease in interest rates is known as:

A) liquidity risk.

B) prepayment risk.

C) event risk.

D) reinvestment risk.