Bond Markets

Due Mar 19 at 9:12am **Points** 1 **Questions** 10
Available Mar 19 at 9am - Mar 19 at 9:12am 12 minutes **Time Limit** 10 Minutes

Instructions

Please answer all questions in 10 minutes.

This quiz was locked Mar 19 at 9:12am.

Attempt History

	Attempt	Time	Score
LATEST	Attempt 1	10 minutes	0.4 out of 1

Score for this quiz: **0.4** out of 1
Submitted Mar 19 at 9:11am
This attempt took 10 minutes.

Finance Formula Sheet (FIN200)

Return on Asset (ROA)	ROA=Net Profit After Tax /Total Assets
Return on Equity (ROE)	ROA=Net Profit After Tax /Equity Capital
Return on Capital Employed (ROCE)	ROCE=Earnings Before Interest and Tax/(Equity + Debt)
Perpetuities	$P = \frac{A}{i}$
Annuities	$PV = \frac{1 - \frac{1}{(1+i)^n}}{i} x\, A$
Repos	Interest $= \text{Selling Price x Interest rate x} \frac{Day\ to\ Maturity}{Days\ in\ Year}$
Simple Interest	FV=P(1+i) At the end of year n: FV=P(1+(i x n))
	$PV = \frac{Value\ at\ Maturity}{1+R}$ or $PV = \frac{Value\ at\ Maturity}{1 + (\frac{i}{100}\ x\ \frac{Days\ to\ Maturity}{Days\ in\ Year})}$
Present Value	$PV = \frac{FV}{(1+i)^n}$
Future Value	$FV = PV\ (1+i)^n$
Discount yield	$\frac{FV-PV}{FV}\ x\ \frac{Days\ in\ Year}{Days\ to\ Maturity}\ x\ 100$ (for percentage)
Bond Equivalent Yield	$\frac{FV-PV}{PV}\ x\ \frac{Days\ in\ Year}{Days\ to\ Maturity}\ x\ 100$
Value at Maturity	$FV + (FV\ x\ \frac{i}{100} x\ \frac{Day\ to\ Maturity}{Day\ in\ Year})$
Conversion price	Nominal Par Value/ Number of shares in which bond may be converted
Conversion Premium	((Conversion Price – Market Share Price)/ Market Share Price) x 100
Current Yield	$\frac{Coupon}{Price}$
Yield to Maturity (approximate)	$\frac{Coupon}{Price} + \frac{(Face\ Value - Price)/N}{Price}$
Rate of Return	$R = \frac{Dollar\ Gain}{P_0} = \frac{P_1 + D_1 - P_0}{P_0}$
Expected Return	$E(R) = \sum Pb_i R_i$
Standard Deviation	$\sigma = \sqrt{\sum Pb_i (R_i - E(R))^2}$

Deg Rad

Question 1

0.1 / 0.1 pts

Which one of the following most accurately describes a debenture issued by a UK firm?

- A contract in which a lender provides finance to a firm in return for promises of interest payment and capital repayment at maturity. The debenture is unsecured

- A bond which entitles the owner to receive a share of the firm's assets in a liquidation

A financial asset with a right to receive interest and a share of a firm's profits

Correct!

A long-term contract in which the debenture holder lends money to a company in return for promises of interest payments and capital repayment at maturity. The debenture is secured by either a fixed or a floating charge against the firm's assets

Question 2

0 / 0.1 pts

What is the current yield of a bond with £100 nominal value, 6% coupon rate, 5 years to maturity which is being traded at the price of £102.2?

7.2%

'ou Answered

6%

5%

:orrect Answer

5.9%

Question 3

0 / 0.1 pts

Which of the following is true?

Ratings agencies mostly base their corporate bond ratings on the amount of profit that the company made in the previous three years

Correct!

- [x] A top credit rating means that there is hardly any likelihood of default by the bond issuer

'ou Answered

- [x] The rating agencies are paid by the domestic government to rate domestic company bonds as this can give a boost to exports

- [ ] All bonds issued by a company are given the same rating by the agencies

Question 4

0 / 0.1 pts

Which one of the following is not a type of bond?

orrect Answer

- Acceptance credit
- Foreign

'ou Answered

- Covered
- Municipal
- Strip
- Corporate

Question 5

0 / 0.1 pts

Which one of the following is false?

orrect Answer

- A rise in a country's inflation will lead to a rise in demand for its bonds

ou Answered

- If government borrowing increases it will sell more bonds and so the supply will increase
- Equilibrium in the price of a bond occurs when there is a balance between supply and demand
- If bonds are thought to be a more risky investment than previously it is likely that demand for them will fall

Question 6

0 / 0.1 pts

An investor buys a bond with a coupon of 5.5 per cent and three years to maturity. The market rate for this type of security is 4 per cent. What was the purchase price?

ou Answered

- 105.6053
- 100.1984
- 99.2732

orrect Answer

- 104.1627

Question 7

0.1 / 0.1 pts

A junk bond is best described as:

Correct!

- A financial instrument with predominantly debt characteristics but offering high rate and high risk
- A financial security issued by retail chains selling inexpensive items
- A promise made by the crew of a traditional Chinese ship
- A worthless bond

Question 8

0.1 / 0.1 pts

Which one of the following statements is false?

Correct!

- With bonds, investors are guaranteed to receive a return on their investment
- By buying bonds, bondholders are lending money to the bond issuer on a long-term basis
- Bonds are often called fixed rate securities
- Bonds represent a major proportion of the world's financial instruments

Question 9

0 / 0.1 pts

A £100 convertible bond offers the right to convert to 20 ordinary shares. The current share price is £4.20. What are the conversion premium, conversion ratio and conversion price?

- Premium: 16%, Ratio: 20 shares, Price: 20p

'ou Answered

- Premium: 16%, Ratio: 5:1, Price: £5
- Premium: 19%, Ratio: 5:1, Price: 20p

:orrect Answer

- Premium: 19%, Ratio: 20 shares, Price: £5

Question 10

0.1 / 0.1 pts

Which one of the following is false?

Correct!

- It is not possible to put a bond and its coupons back together if they have been stripped
- Coupons stripped from bonds are zero coupon instruments and trade at a discount to par

Investors who buy convertible bonds are able to wait and watch the progress of shares before deciding whether to use the option to convert

Once a bond has been stripped of its coupons it becomes a zero coupon instrument and trades at a discount

Quiz Score: **0.4** out of 1