**VALUATION AND PORTFOLIO MANAGEMENT**

**Quiz -2 (VARIANT I)**

**Time: 20 minutes Max. Marks 18**

Instructions for students: Select only one answer from the alternatives given. Each question carries 2 marks. There is no negative marking.

1. Which set of conditions will result in a bond with the greatest price volatility?
2. A high coupon and a short maturity
3. A high coupon and a long maturity
4. A low coupon and a short maturity
5. A low coupon and a long maturity
6. An investor who expects declining interest rates would be likely to purchase a bond that has a \_\_\_\_\_\_\_\_\_\_\_\_ coupon and a \_\_\_\_\_\_\_\_\_\_\_\_ term to maturity.
7. Low, long
8. High, short
9. High, long
10. Low short
11. As compared with bonds selling at par, deep discount bonds will have:
12. Greater reinvestment risk
13. Greater price volatility
14. Less call protection
15. More call protection
16. A bond with a call feature
17. Is attractive because the immediate receipt of principal plus premium produces a high return
18. Is more apt to be called when interest rates are high because the interest saving will be greater
19. Will usually have a higher yield to maturity than a similar noncallable bond.
20. Will always be called at a premium
21. In which one of the following cases is the bond selling at a discount
22. Coupon rate is greater than current yield, which is greater than yield to maturity
23. Coupon rate, current yield and yield and yield to maturity are same.
24. Coupon rate is less than current yield, which is less than yield to maturity
25. Coupon rate is less than current yield, which is greater than yield to maturity.
26. Consider a five year bond with a 10% coupon selling at a yield to maturity of 8%. If interest rates remain constant, one year from now the price of the bond will be:
27. Higher
28. Lower
29. The same
30. At Par
31. A fund manager has to pay Rs.1 million, Rs.2 million and Rs.1 million at the end of each of the next three years respectively. Find the duration of the fund manager’s obligations if the interest rate is 10% annually?
32. 1.9524
33. 2.5924
34. 1.7562
35. 2.3242
36. You own a fixed income asset with a duration of five years. If the level of interest rates which is currently 8% goes down by 10 basis points how much do you expect the asset price to change?
37. 0.463% increase
38. 0.463 % decrease
39. 0.50% increase
40. 0.50 % decrease
41. A one year bond with an annual coupon rate of 4.8% sells for Rs.970. What are the bond’s current yield (CY), nominal yield (NY) and yield to maturity (YTM) respectively?
42. CY = 4.8%; NY=4.94%; YTM = 8.04%
43. CY = 4.94%; NY=4.94%; YTM = 4.8%
44. CY = 4.8%; NY=4.8%; YTM = 8.04%
45. CY = 4.94%; NY=4.8%; YTM = 8.04%

**RESPONSE SHEET**

Roll No. Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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| **Question Number** | **RESPONSE** |
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