Quiz 11 for Oct 3

Started: Sep 30 at 4:49pm

Quiz Instructions

Complete this quiz by 11:00 a.m. on Monday October 3.

Question 1

1 pts

You wish to be a floating-rate payer in a plain vanilla interest rate swap that makes semi-annual exchanges. The swap rate that you would receive

- ( ) would equal 6-month LIBOR observed at the beginning of each exchange period.
- (•) would equal 6-month LIBOR observed at the end of each exchange period.
- ( ) would equal a dealer's quoted ask rate.
- ( ) would equal a dealer's quoted bid rate.

Question 2

1 pts

A bank issued $10 million in deposits on which it pays 3-month LIBOR. It used the $10 million to purchase 5-year fixed-coupon Treasury notes. However, the bank is now concerned that market interest rates will rise. It can hedge its interest rate risk by

- [ ] becoming a floating-rate payer, fixed-rate receiver in a plain vanilla 5-year interest rate swap with a notional principal of $10 million.
- [x] becoming a fixed-rate payer, floating-rate receiver in a plain vanilla 5-year interest rate swap with a notional principal of $10 million.
- [ ] entering into a 5-year SOFR/3-month LIBOR basis swap with a notional principal of $10 million in which it pays daily-compounded SOFR and receives 3-month LIBOR.
- [ ] entering into a 5-year SOFR/Federal Funds basis swap with a notional principal of $10 million in which it pays daily-compounded Federal Funds and receives daily-compounded SOFR.

Question 3

1 pts

A real estate developer expects to receive a payment $10 million from selling real estate in 6 months and will deposit the proceeds from the sale in a bank earning interest equal to 3-month LIBOR. The developer expects to keep the money at the bank for another two years. However, the developer is concerned that interest rates will fall in 6 months. To hedge this risk, the developer could

- [ ] become a floating-rate receiver, fixed-rate payer in a 2-year forward swap beginning in 6 months and having a notional principal of $10 million.
- [ ] become a floating-rate receiver, fixed rate payer in a 2-year swap having a notional principal of $10 million.
- [x] become a fixed-rate receiver, floating rate payer in a 2-year forward swap beginning in 6 months and having a notional principal of $10 million.
- [ ] become a fixed-rate receiver, floating rate payer in a 2-year swap having a notional principal of $10 million.

Question 4

1 pts

Suppose that the current spot yield curve is upward sloping, and the 10-year semi-annually-compounded US Treasury STRIP yield is 4.00%. Then the fair swap rate on a 10-year interest rate swap is likely to be

- ○ equal to 4.00 %.
- ◉ greater than 4.00 %.
- ○ less than the fair swap rate on a 5-year swap.
- ○ less than 4.00 %.

Question 5

1 pts

Ask one or more questions or make one or more comments on the material covered in this class.

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I want to make sure that what make this interst rate swap useful is to provide the people who expect the floating rate to increase to exchange for hte floating rate, and for those who expects the rate will decline to have the fixed rate. (from receiver's aspect).

Thank you.

p

50 words

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