

Quiz

1. What is the value of a \$50,000 pure discount bond that matures in 15 years when the market interest rate is 6.5 percent?

- A. \$18,877.60
- B. \$19,441.33**
- C. \$19,589.43
- D. \$19,600.00
- E. \$20,333.33

$$PV = \$50,000 / (1.065)^{15}$$

2. Which one of the following statements is true?

- A. A pure discount bond is also called a zero coupon bond.**
- B. A two-year, \$1,000 pure discount bond is worth less than a 5-year, \$1,000 pure discount bond given a 5 percent market interest rate.
- C. The price of a zero coupon bond is unaffected by the time to maturity.
- D. A pure discount bond pays interest payments every 6 months.
- E. The price of a bond is directly related to the market rate of interest.

The two-year bond will be worth more

3. Generally speaking, U.S. government coupon bonds pay interest every _____ months while U.S. corporate bonds pay interest every _____ months.

- A. 3; 3
- B. 3; 6
- C. 6; 3
- D. 6; 6**
- E. 6; 12

U.S. government and U.S. corporate bonds generally pay interest every 6 months

4. What is the amount of each interest payment on an 8.5 percent, semiannual coupon bond if the face value of the bond is \$1,000?

- A. \$4.25
- B. \$8.50
- C. \$21.25
- D. \$42.50**
- E. \$85.00

$$\text{Each payment} = (.085 \times \$1,000) / 2$$

5. A 7 percent, semiannual coupon bond has a \$1,000 face value and matures in 11 years. What is the current value of this bond if the market rate of interest is 9.8 percent?

- A. \$814.03**
- B. \$887.16
- C. \$892.04
- D. \$911.11
- E. \$928.82

The bond pays \$35 in interest every six months

6. Miller Brothers has bonds outstanding that mature in 14 years and pay a 6 percent semiannual coupon. What will the bond quote be for one of these bonds if the par value is \$1,000 and market interest rate is 8.2 percent?
- A. 78
 - B. 81.88**
 - C. 67
 - D. 80
 - E. 23

The bond price is \$818.80, which is quoted as 81.88.

7. A semiannual coupon bond pays interest payments of \$42.50 each. What is the coupon rate if the face value of the bond is \$1,000?
- A. 13 percent
 - B. 25 percent
 - C. 8.50 percent**
 - D. 75 percent
 - E. 00 percent

The bond pays \$85 of interest annually. The coupon rate = $\$85 / \$1,000$.

8. Which one of the following bonds by definition has no maturity date?
- A. zero coupon
 - B. U.S. government
 - C. consol**
 - D. coupon
 - E. par value

A consol is a perpetual bond.

9. The value of a pure discount bond will _____ when the market rate of interest increases, all else constant.
- A. be unaffected
 - B. increase
 - C. decrease**
 - D. either be unaffected or increase, depending on the time to maturity
 - E. either be unaffected or decrease, depending on the time to maturity

Bond prices and market interest rates are inversely related

10. Which one of the following statements is true?
- A. The coupon rate of a discount bond exceeds the bond's YTM.
 - B. If the YTM is equal to the coupon rate, the bond will sell at a discount.
 - C. A premium bond has a YTM that exceeds the coupon rate.
 - D. A par value bond has a YTM that is less than the coupon rate.
 - E. A premium bond has a YTM that is less than the coupon rate.**

The coupon rate is less than the YTM for a discount bond.