

Quiz

1. Short-term debt matures within which one of the following time periods?

- A. six months
- B. one year**
- C. eighteen months
- D. two years
- E. five years

Short-term debt matures in one year or less.

2. Funded debt is a term generally used to define which kind of debt?

- A. collateralized
- B. mortgage
- C. unsecured
- D. long-term**
- E. short-term

Funded debt is long-term debt.

3. A \$1,000 face value bond matures in 15 years, has an annual coupon of 6.6 percent, and an offer price of 98.25. What is the annual interest payment?

- A. \$64.85
- B. \$65.50
- C. \$66.00**
- D. \$67.18
- E. \$67.50

The coupon rate applies to the face value.

4. A bond has a face value of \$1,000 and an offer price of 101.625. What is the current market price of this bond if the coupon rate is 7.5 percent?

- A. \$984.01
- B. \$992.50
- C. \$1,000.00
- D. \$1,016.25**
- E. \$1,018.75

The offer price is stated as a percentage of face value.

5. If a bond is callable but has no deferred call provision then the bond:

- A. cannot be called.
- B. can be called at any time.**
- C. can be called but only at a premium.
- D. can be called at a discount.
- E. cannot be called unless the bondholder is agreeable.

Without a deferred call provision, the bond can be called at any time.

6. Which of the following are included in the issuance of publicly traded bonds?

- I. approval of the issue by the board of directors
 - II. direct placement with a financial institution
 - III. 20-day waiting period
 - IV. SEC registration
- A. I and IV only

- B. II and III only
- C. I, III, and IV only**
- D. I, II, and III only
- E. I, II, III, and IV

Option III also applies

7. What is the document which contains the agreement between the bond issuer and a trust company called?
- A. issue statement
 - B. bond covenant
 - C. collateral statement
 - D. mortgage deed

E. Indenture

The agreement between a bond issuer and a trust company is called an indenture.

8. A trust company that signs an indenture agreement with a bond issuer is obligated to do which of the following?

- I. represent bondholders if the issuer defaults on any payments
- II. ensure the terms of the indenture agreement are followed
- III. manage the sinking fund, if applicable
- IV. represent the best interests of the bond issuer

- A. I and II only
- B. III and IV only
- C. I, II, and III only**
- D. II, III, and IV only
- E. II and III only

Option III is also correct.

9. Which of the following are commonly found in a bond indenture agreement?

- I. protective covenants
- II. description of property pledged as security
- III. names of the original bondholders
- IV. sinking fund arrangements

- A. I and IV only
- B. II and III only
- C. I and II only
- D. I, II, and IV only**
- E. I, II, III, and IV

A description of the property pledged as security is also included in the indenture.

10. Which one of the following bond values changes over time?

- A. par value
- B. denomination
- C. face value
- D. principal value

E. market value

Only the market value changes.