

G L Bajaj Institute of Management and Research

PGDM Batch 2020-22

Academic Session 2021-22

Quiz I

Subject Name: Fixed Income Security

Subject Code PGF-09

Name of Student

Maximum Marks: 20

Marks Obtained

**Course Outcome Covered**

Note:

1. Writing anything except Roll Number on Quiz paper will be deemed as an act of indulging in unfair means and action shall be taken as per rules.
2. There is no negative marking for wrong answer.
3. Tick mark the correct answer.

**Course  
Outcome  
CO-1**

1. Interest rates and bond prices

- (a) move in the same direction
- (b) move in the opposite direction
- (c) sometimes move in the same direction, sometimes in opposite directions
- (d) have no relationship with each other (i.e., they are independent)

Answer:

b

2. A 7-year, \$1000 par, semi-annual pay 8% fixed coupon bond has a market discount rate of 6% with 2 years to maturity. What is the market price of the bond closest to?

- (a) \$1037
- (b) \$ 1019
- (c) \$ 963
- (d) None of the above

Answer:

a

3. Kennedy is choosing between bonds A and B. Both bonds have the same time to maturity and are trading at the same yield. Bond A has a lower coupon rate while Bond B has a higher coupon rate. Which of the 2 bonds should Kennedy choose, given that he has a preference for a bond with lower price volatility as he intends to sell the bond in the short term.

- (a) Bond A
- (b) Bond B
- (c) Both Bond A and B

**CO-2**

(d) Does not make a difference

Answer: b

4. A \$1000 par 10% semi-annual fixed coupon bond with has exactly 2 years to maturity and the coupon has just been paid. The market discount rate of the bond is 8%. Calculate the price of the bond.

CO-2

- (a) \$1036
- (b) \$ 1039
- (c) \$ 963
- (d) None of the above

Answer: a

5. A fixed 6% quarterly-pay coupon bond with 5.5 years to maturity is trading at 98.6 per 100 par. What is the effective yield of the bond?

CO-2

- (a) 6.3%
- (b) 6.45%
- (c) 5.9%
- (d) None of the above

Answer: b

6. The price of an outstanding bond decreases when the market rate is

CO-2

- (a) earned
- (b) Never Changed
- (c) Increased
- (d) Decreased

Answer: c

7. What's the value to you of a \$1,000 face-value bond with an 8% coupon rate when your required rate of return is 15 percent?

CO-2

- (a) Less Than its face value
- (b) More Than its face value
- (c) 1000
- (d) 100

Answer: a

8. If an investor may have to sell a bond prior to maturity and interest rates have risen since the bond was purchased, the investor is exposed to

CO-1

- (a) the coupon effect
- (b) interest rate risk.
- (c) a perpetuity
- (d) an indefinite maturity

Answer: b

9. When the market's required rate of return for a particular bond is much less than its coupon rate, the bond is selling at: **CO-1**

- (a) Premium
- (b) Discount
- (c) Par
- (d) cannot be determined without more information

Answer: a

10. If a bond sells at a high premium, then which of the following relationships hold true? (P0 represents the price of a bond and YTM is the bond's yield to maturity). **CO-2**

- (a)  $P_0 < \text{par}$ , and  $\text{YTM} > \text{the coupon rate}$
- (b)  $P_0 > \text{par}$ , and  $\text{YTM} > \text{the coupon rate}$
- (c)  $P_0 > \text{par}$ , and  $\text{YTM} < \text{the coupon rate}$
- (d)  $P_0 < \text{par}$ , and  $\text{YTM} < \text{the coupon rate}$ .

Answer: c

11. A debt market is a part of the \_\_\_\_ market. **CO-1**

- (a) Money
- (b) Capital
- (c) Cash
- (d) Paper

Answer: b

12. \_\_\_\_\_ Rating is mandatory for issuing debentures publicly. **CO-1**

- (a) Credit
- (b) Debit
- (c) Finance
- (d) Legal

Answer: a

13. The Indian Debt market has traditionally been a \_\_\_\_ market **CO-1**

- (a) Retail
- (b) Wholesale
- (c) Cash
- (d) Lot

Answer:

b

14. \_\_\_\_\_ Bonds are securities which do not have a fixed coupon rate

**CO-1**

- (a) Floating Rate
- (b) Zero
- (c) Junk
- (d) Liquid

Answer:

b

15. \_\_\_\_\_ Bonds are Rupee denominated bonds?

**CO-1**

- (a) Zero Coupon
- (b) Masala
- (c) Inflation
- (d) Speculation

Answer:

b

**CO-1**

16. . \_\_\_\_\_ grade bonds indicates highly speculative feature, often in default.

- (a) AA+
- (b) BB+
- (c) AAA
- (d) CC

Answer:

d

17. . \_\_\_\_\_ Bonds are securities which do not have a fixed coupon rate

**CO-1**

- (a) Fixed Rate
- (b) Floating Rate
- (c) Tax-Free
- (d) Junk Rate

Answer:

b

18. \_\_\_\_\_ yield is a bond's annual return based on its annual payments and current price

**CO-1**

- a) Current
- b) Normal
- c) Flat
- d) Humped

Answer:

a

19. The expected rate of return on a bond if bought at its current market price and held to maturity

**CO-1**

- (a) yield to maturity
- (b) current yield
- (c) coupon yield
- (d) capital gains yield

Answer:

a

20. A market participant has a time horizon of one year . He is typically:

**CO-1**

- (a) A trader
- (b) An investor
- (c) A speculator
- (d) A gambler

Answer:

b









