



Subject: Fixed Income Products

Chapter: Unit 1

Category: Practice questions

1. If the bond's price is higher than its par value, the bond is trading at:
 - A. par.
 - B. a discount.
 - C. a premium.

2. The type of bond that allows bondholders to choose the currency in which they receive each interest payment and principal repayment is a:
 - A. pure discount bond.
 - B. dual-currency bond.
 - C. currency option bond.

3. The term most likely used to refer to the legal contract under which a bond is issued is:
 - A. indenture.
 - B. debenture.
 - C. letter of credit.

4. The category of bond most likely repaid from the repayment of previous loans made by the issuer is:
 - A. sovereign bonds.
 - B. supranational bonds.
 - C. non-sovereign bonds.

5. An example of an affirmative covenant is the requirement:
 - A. that dividends will not exceed 60% of earnings.
 - B. to insure and perform periodic maintenance on financed assets.
 - C. that the debt-to-equity ratio will not exceed 0.4 and times interest earned will not fall below 8.0.

6. A bond issued by Sony in Japan, denominated in US dollars but not registered with the SEC, and sold to an institutional investor in the Middle East, is most likely an example of which bond?
Define the bond and state the other form of bond market prevalent globally.

7. Assume that a company issues bonds in the hypothetical country of Zinland, where the local currency is the zini(Z). There is an original issue discount tax provision in Zinland's tax code. The company issues a 10-year zero-coupon bond with a par value of Z1,000 and sells it for Z800. How much taxable income will the investor have to include in his tax every year ? Will the investor have to declare capital gain at maturity assuming he holds the bond till maturity?

8. The bonds that do not offer protection to the investor against increases in market interest rates are:

- A. step-up bonds.
- B. floating rate notes.
- C. inverse floating rate notes.

9. Assume a hypothetical 30-year bond is issued on 15 August 2012 at a price of 98.195 (as a percentage of par). Each bond has a par value of \$1,000. The bond is callable in whole or in part every 15 August from 2022 at the option of the issuer. The call prices are shown below.

Year	Call Price	Year	Call Price
2022	103.870	2028	101.548
2023	103.485	2029	101.161
2024	103.000	2030	100.774
2025	102.709	2031	100.387
2026	102.322	2032 and thereafter	100.000
2027	101.955		

Calculate the following

- 1. call protection period
- 2. call premium (per bond) in 2026
- 3. call provision

10. A fixed-income security issued with a maturity at issuance of nine months is most likely classified as a:

- A. securitized investment.
- B. capital market security.
- C. money market security.

11. What is a primary bond market? State the different methods of issuing bonds in a primary bond market.

12. Corporate bonds will most likely settle on the:

- A. trade date
- B. trade date plus one day
- C. trade date plus three days

13. Sovereign bonds with a maturity at issuance shorter than one year are most likely :

- A. floating-rate bonds
- B. zero-coupon bonds
- C. coupon-bearing bonds

14. Which of the following statements relating to commercial paper is most accurate? Companies issue commercial paper:

- A. only for funding working capital
- B. only as an interim source of financing
- C. both for funding working capital and as an interim source of funding

15. Describe repurchase agreements (repos) in brief.



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