

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) The _____ is a better approximation for the _____, the nearer the bond's price is to the bond's par value and the longer the maturity of the bond.
A) current yield; coupon rate
B) yield to maturity; coupon rate
C) current yield; yield to maturity
D) yield to maturity; current yield
- 2) The interest rate that equates the present value of payments received from a debt instrument with its value today is the
A) discount rate.
B) yield to maturity.
C) real interest rate.
D) simple interest rate.
- 3) With an interest rate of 5 percent, the present value of \$100 next year is approximately
A) \$100.
B) \$105.
C) \$90.
D) \$95.
- 4) A credit market instrument that provides the borrower with an amount of funds that must be repaid at the maturity date along with an interest payment is known as a
A) fixed-payment loan.
B) simple loan.
C) discount bond.
D) coupon bond.
- 5) A coupon bond pays the owner of the bond
A) the face value of the bond plus an interest payment once the maturity date has been reached.
B) the same amount every month until maturity date.
C) a fixed-interest payment every period and repays the face value at the maturity date.
D) the face value at the maturity date.
E) none of the above.
- 6) The interest rate on a consol
A) equals the price divided by the coupon payment.
B) equals the coupon payment divided by the price.
C) equals the price times the coupon payment.
D) equals the price minus the coupon payment.
E) equals the coupon payment plus the price.
- 7) A consol paying \$1 annually when the interest rate is 4 percent has a price of
A) \$4.
B) \$400.
C) \$25.
D) \$100.
E) \$20.
- 8) If a consol has a price of \$500 and an annual interest payment of \$25, the interest rate is
A) 10 percent.
B) 5 percent.
C) 2.5 percent.
D) 7.5 percent.
E) 12.5 percent.
- 9) If a \$5,000 coupon bond has a coupon rate of 13 percent, then the coupon payment every year is
A) \$1,300.
B) \$650.
C) \$130.
D) \$13.
E) none of the above.

- 10) If a \$20,000 coupon bond has a coupon rate of 8 percent, then the coupon payment every year is
- A) \$80.
 - B) \$800.
 - C) \$400.
 - D) \$40.
 - E) none of the above.
- 11) A \$6,000 coupon bond with a \$480 coupon payment every year has a coupon rate of
- A) 8 percent.
 - B) 6 percent.
 - C) 4 percent.
 - D) 2 percent.
- 12) A bond that is bought at a price below its face value and the face value is repaid at a maturity date is called a
- A) fixed-payment loan.
 - B) simple loan.
 - C) coupon bond.
 - D) discount bond.
- 13) If a \$5,000 face-value discount bond maturing in one year is selling for \$5,000, then its yield to maturity is
- A) 0 percent.
 - B) 10 percent.
 - C) 5 percent.
 - D) 20 percent.
- 14) Which of the following are true for the current yield?
- A) The current yield is defined as the yearly coupon payment divided by the price of the security.
 - B) The formula for the current yield is identical to the formula describing the yield to maturity for a consol.
 - C) The current yield will be a close approximation for the yield to maturity the longer the time to maturity, and the closer the bond price to its par value.
 - D) All of the above are true.
 - E) Only A and B of the above are true.
- 15) For a consol, the current yield is an _____ of the yield to maturity.
- A) approximate measure
 - B) exact measure
 - C) underestimate
 - D) overestimate
- 16) The current yield on a \$10,000, 10 percent coupon bond selling for \$5,000 is
- A) 60 percent.
 - B) 30 percent.
 - C) 20 percent.
 - D) 33 percent.
- 17) The current yield on a \$10,000, 5 percent coupon bond selling for \$8,000 is
- A) 7 percent.
 - B) 5 percent.
 - C) 8 percent.
 - D) 6 percent.
- 18) The formula for the measure of the interest rate called the yield on a discount basis has two peculiarities:
- A) it uses the percentage gain on the face value of the bill, rather than the percentage gain on the purchase price of the bill.
 - B) it ignores the time to maturity.
 - C) it puts the yield on the annual basis of a 360 day year.
 - D) both A and B of the above.
 - E) both A and C of the above.
- 19) The yield on a discount basis of a 180-day \$1,000 Treasury bill selling for \$950 is
- A) 20 percent.
 - B) 10 percent.
 - C) 25 percent.
 - D) 40 percent.

- 20) The yield on a discount basis of a 180-day \$1,000 Treasury bill selling for \$900 is
A) 40 percent. B) 10 percent. C) 20 percent. D) 25 percent.
- 21) What is the return on a 5 percent coupon bond that initially sells at the face value of \$1,000 and sells for \$1,200 next year?
A) 25 percent
B) 10 percent
C) -5 percent
D) 5 percent
E) None of the above
- 22) The return on a 10 percent coupon bond that initially sells at the face value of \$1,000 and sells for \$950 next year is
A) -10 percent. B) -5 percent. C) 0 percent. D) 5 percent.
- 23) Which of the following are true concerning the distinction between interest rates and return?
A) The rate of return will be greater than the interest rate when the price of the bond falls between time t and time $t + 1$.
B) The return can be expressed as the difference between the current yield and the rate of capital gains.
C) The rate of return on a bond will not necessarily equal the interest rate on that bond.
D) All of the above are true.
E) Only A and B of the above are true.
- 24) If you expect the inflation rate to be 5 percent next year and a one-year bond has a yield to maturity of 7 percent, then the real interest rate on this bond is
A) -12 percent. B) 2 percent. C) 12 percent. D) -2 percent.
- 25) If you expect the inflation rate to be 12 percent next year and a one-year bond has a yield to maturity of 7 percent, then the real interest rate on this bond is
A) -5 percent. B) 2 percent. C) -2 percent. D) 12 percent.

Answer Key

Testname: CHAPTER 4 PQ.TST

- 1) C
- 2) B
- 3) D
- 4) B
- 5) C
- 6) B
- 7) C
- 8) B
- 9) B
- 10) E
- 11) A
- 12) D
- 13) A
- 14) D
- 15) B
- 16) C
- 17) D
- 18) E
- 19) B
- 20) C
- 21) A
- 22) D
- 23) C
- 24) B
- 25) A