

SYBMS- Finance
Subject: Debt & Equity Markets1.

Compared to money market securities, capital market securities have _____

- a) More liquidity
- b) Longer maturities**
- c) Lower yields
- d) Less risk

2. (I) Securities that have an original maturity greater than one year are traded in capital markets.
(II) the best known capital market securities are stocks and bonds.

- a) (I) is true (II) is false
- b) (I) is false (II) is true
- c) Both are true**
- d) Both are false

3. (I) securities that have an original maturity greater than one year are traded in money market
(II) the best known money market securities are stocks and bonds

- a) (I) is true (II) false
- b) (I) is false (II) true
- c) Both are true
- d) Both are true**

4. (I) Firms and individuals use the capital markets for long-term investments
(II) the capital markets provide an alternative to investment in assets such as real estate and gold

- a) (I) is true (II) is false
- b) (I) is false (II) is true
- c) Both are true**
- d) Both are false

5. The primary reason that individuals and firms choose to borrow long-term is to reduce the risk that interest rates will _____ before they pay off their debt

- a) Rise**
- b) Fall
- c) Become more volatile
- d) Become more Stable

6. A firm that choose to finance a-new plant by issuing money market securities _____

- a) Must incur the cost of issuing new securities to roll over its debt
- b) Runs the risk of having to pay higher interest rates when it rolls over its debt

c) Incurs both the cost of reissuing securities and the risk of having to pay higher interest rates on the new debt

d) Is more likely to profit if interest rates rise while the plant is being constructed

7. The primary reason that individuals and firms choose to borrow long-term is to _____

a) Reduce the risk that interest rates will fall before they pay off their debt

b) Reduce the risk that interest rates will rise before they pay off their debt

c) Reduce monthly interest payments, as interest rates tend to be higher on short-term than long-term debt instruments

d) Reduce total interest payments over the life of the debt

8. A firm will borrow long-term _____

a) If the extra interest cost of borrowing long-term is less than the expected cost of rising interest rates before it retires its debt

b) If the extra interest cost of borrowing short-term due to rising interest rates does not exceed the expected premium that is paid for borrowing long term

c) If short-term interest rates are expected to decline during the term of the debt

d) If long-term interest rates are expected to decline during the term of the debt

9. The primary issuers of capital market securities include _____

a) The federal and local government

b) The federal and local government, and corporations

c) The federal and local government, corporation and financial institutions

d) Local governments and corporations

10. Governments never issue stock because _____

a) They cannot sell ownership claims

b) The constitution expressly forbids it

c) Both (a) and (b) of the above

d) Neither (a) nor (b) of the above

11. (I) The primary issuers of capital market securities are federal and local government, and corporations

(II) Governments never issue stock because they cannot sell ownership claims

a) (I) is true, (II) false

b) (I) is false, (II) true

c) Both are true

d) Both are false

12. (I) The primary issuers of capital market securities are Financial Institutions

(II) The largest purchasers of capital market securities are corporation

- a) (I) is true, (II) false
- b) (I) is false, (II) true
- c) Both are true
- d) Both are false**

13. The distribution of a firm's capital between debt and equity is its _____

- a) Leverage ratio
- b) liability structure
- c) Acid ratio
- d) capital structure**

14. The largest purchasers of capital market securities are _____

- a) Households**
- b) corporations
- c) Governments
- d) Central bank

15. Individuals and households frequently purchase capital market securities through financial institutions such as _____

- a) Mutual funds
- b) Pension funds
- c) Money market mutual funds
- d) All of the above
- e) Only a and b of the above**

16. (I) There are two types of exchanges in the secondary market for capital securities:

Organized exchanges and over-the-counter exchanges

(II) when firm's sell securities for the very first time, the issue is an initial public offering

- a) (I) is true, (II) false
- b) (I) is false, (II) true
- c) Both are true**
- d) Both are false

17. (I) Capital market securities fall into two categories: bonds and stocks

(II) long-term bonds include governments bonds and long-term notes, municipal bonds and corporation bonds

- a) (I) is true, (II) false
- b) (I) is false, (II) true**
- c) Both are true

d) Both are false

18. The _____ value of a bond is the amount that the issuer must pay at maturity

- a) Market
- b) Present
- c) Discount
- d) Face**

19. The _____ rate is the rate of interest that the issuer must pay

- a) Market
- b) Coupon**
- c) Discount
- d) Funds

20. (I) The coupon rate is the rate of interest that the issuer of the bond must pay _____
(II) The coupon rate is usually fixed for the duration of the bond and does not fluctuate with market interest rates

- a) (I) is true, (II) false
- b) (I) is false, (II) true
- c) Both are true**
- d) Both are false

21. (I) The coupon rate is the rate of interest that the issuer of the bond must pay
(II) the coupon rate on old bonds fluctuate with market interest rates so they will remain attractive to investors

- a) (I) is true, (II) false**
- b) (I) is false, (II) true
- c) Both are true
- d) Both are false

22. Treasury bonds are subject to _____ risk but are free of _____ risk

- a) default; interest-rate
- b) default; underwriting
- c) interest-rate; default**
- d) interest-rate; underwriting

23. The price of treasury notes, bonds, and bills are quoted _____

- a) as a percentage of the coupon rate
- b) as a percentage of the previous day's closing value
- c) as a percentage of \$ 100 face value**

d) as a multiple of the annual interest paid

24. The security with the longest maturity is a treasury _____

a) note

b) bond

c) acceptance

d) bill

25. (I) to sell an old when interest rates have risen, the holder will have to discount the bond until the yield to the buyers is the same as the market rate

(II) the risk that the value of a bond will fall when market interest rates rise is called interest rates risk

a) (I) is true, (II) false

b) (I) is false, (II) true

c) Both are true

d) Both are false

26. To sell an old when interest rates have _____, the holder will have to _____ the bond until the yield to the buyers is the same as the market rate

a) risen; lower

b) risen; raise

c) fallen; lower

d) risen; inflate

27. Most of the time, the interest rate on Treasury notes and bonds is _____ that on money market securities because of _____ risk

a) above; interest-rate

b) above; default

c) below; interest-rate

d) below; default

28. (I) in most years, the rate of return on short-term Treasury bills is below that on the 20-year Treasury bond

(II) interest rates on Treasury bills are more volatile than rates on long-term treasury securities

a) (I) is true, (II) false

b) (I) is false, (II) true

c) Both are true

d) Both are false

29. (I) because interest rates on Treasury bills are more volatile than rates on long-term securities, the return on short-term Treasury securities is usually above that on longer-term treasury securities

(II) A Treasury STRIP separates the periodic interest payments from the final principal repayment

a) (I) is true, (II) false

b) (I) is false, (II) true

c) Both are true

d) Both are false

30. Which of the following statements about Treasury inflationindexed bonds is not true?

a) The principal amount used to compute the interest payment varies with the consumer price index

b) The interest payment rises when Inflation occurs

c) The interest rate rises when Inflation occurs

d) At maturity, the securities pay the greater of face value or Inflation-adjusted principal

31. The interest rates on government agency bonds are

a) almost identical to those available on Treasury securities since it is unlikely that the federal government would permit its agencies to default on their obligations

b) significantly higher than those available on Treasury securities due to their low liquidity

c) significantly lower than those available on Treasury securities because agency interest payments are tax exempt

d) significantly lower than those available on Treasury securities because the interest rate risk on agency securities is lower than that on Treasury securities

32 (I) Municipal bonds that are issued to pay for essential public projects are exempt from federal taxation.

(II) General obligation bonds do not have specific assets pledged as security or a specific source of revenue allocated for their repayment.

a) (I) is true, (II) false.

b) (I) is false, (II) true.

c) Both are true.

d) Both are false.

33. (I) Most corporate bonds have a face value of \$ 1000, pay interest semi-annually, and can be redeemed any time the issuer wishes.

(II) Registered bonds have now been largely replaced by bearer bonds, which do not have coupons.

a) (I) is true, (II) false.

- b) (I) is false, (II) true.
- c) Both are true.
- d) Both are false.

34. The bond contract that states the lender's rights and privileges and the borrower's obligations is called the _____

- a) bond syndicate
- b) restrictive covenant
- c) bond covenant
- d) bond indenture**

35. Policies that limit the discretion of managers as a way of protecting bondholders' interests are called _____

- a) restrictive covenants**
- b) debentures
- c) sinking funds
- d) bond indentures

36. Typically, the interest rate on corporate bonds will be _____. The more restrictions are placed on management through restrictive covenants, because _____

- a) higher; corporate earnings will be limited by the restrictions
- b) higher; the bonds will be considered safer by bondholders
- c) lower; the bonds will be considered safer by buyers**
- d) lower; corporate earnings will be higher with more restrictions in place

37. Restrictive covenants can _____

- a) limit the amount of dividends the firm can pay
- b) limit the ability of the firm to issue additional debt
- c) restrict the ability of the firm to enter into a merger agreement
- d) do all of the above**
- e) do only (a) and (b) of the above

38. (I) Restrictive covenants often limit the amount of dividends that firms can pay the stockholders.

(II) Most corporate indentures include a call provision, which states that the issuer has the right to force the holder to sell the bond back.

- a) (I) is true, (II) false
- b) (I) is false, (II) true
- c) Both are true**
- d) Both are false

39. Call provisions will be exercised when interest rates _____ and bond values _____

a) rise; rise

b) fall; rise

c) rise; fall

d) fall; fall

40. A requirement in the bond indenture that the firm pay off a portion of the bond issue each year is called _____

a) a sinking fund

b) a call provision

c) a restrictive covenant

d) a shelf registration

41. (I) Callable bonds must have a higher yield than comparable noncallable bonds. (II) Convertible bonds are attractive to bondholders and sell for a higher price than comparable non-convertible bonds.

a) (I) is true, (II) false.

b) (I) is false, (II) true.

c) Both are true.

d) Both are false.

42. Long-term unsecured bonds that are backed only by the general creditworthiness of the issuer are called _____

a) junk bonds

b) callable bonds

c) convertible bonds

d) debentures

43. A secured bond is backed by _____

a) the general creditworthiness of the borrower

b) an insurance company's financial guarantee

c) the expected future earnings of the borrower

d) specific collateral

44. Financial guarantees _____

a) are insurance policies to back bond issues

b) are purchased by financially weaker security issuers

c) lower the risk of the bonds covered by the guarantee

d) do all of the above

e) do only (a) and (b) of the above

45. Corporate bonds are less risky if they are _____ and bonds municipal bonds are less risky if they are _____ bonds

a) secured; revenue

b) secured; general obligation

46. 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 discount bond.

c) The current yield is always a poor approximation for the yield to maturity.

d) All of the above are true.

e) Only (a) and (b) of the above are true.

47. The nearer a bond's price is to its par value and the longer the maturity of the bond the more closely _____ approximates _____

a) current yield; yield to maturity

b) current yield; coupon rate

c) yield to maturity; current yield

d) yield to maturity; coupon rate

48. 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 current yield and the yield to maturity always move together.

c) The formula for the current yield is identical to the formula describing the yield to maturity for a discount bond.

d) All of the above are true.

e) Only (a) and (b) of the above are true.

49. The current yield is a less accurate approximation of the yield to maturity the. the _____
The time to maturity of the bond, the _____ the price is from/to the par value.

a) shorter; closer

b) shorter; farther

c) longer; closer

d) longer; farther

50. The current yield on a \$ 6,000, 10% coupon bond selling for \$ 5,000 is _____

a) 5%

- b) 10%
- c) 12%**
- d) 15%

51. The current yield on a \$ 5,000, 8% coupon bond selling for \$ 4,000 is _____

- a) 5%
- b) 8%
- c) 10%**
- d) 20%
- e) none of the above.

52. For a consol, the current yield is an of _____ the yield to maturity.

- a) underestimate
- b) overestimate
- c) approximate measure
- d) exact measure**

53. Which of the following are true of the yield on a discount basis as a measure of the interest rate?

- a) It uses the percentage gain on the face value of the security, rather than the percentage gain on the purchase price of the security.
- b) It puts the yield on the annual basis of a 360-day year.
- c) It ignores the time to maturity.
- d) All of the above are true.
- e) Only (a) and (b) of the above are true.**

54. The formula for the measure of the interest rate called the yield on a discount basis is peculiar because _____

- a) it puts the yield on the annual basis of a 360-day year**
- b) it uses the percentage gain on the purchase price of the bill
- c) it ignores the time to maturity
- d) both (a) and (b) of the above
- e) both (a) and (c) of the above

55. The yield on a discount basis of a 180-day \$ 1,000 Treasury bill selling for \$ 950 is _____

- a) 10%**
- b) 20%
- c) 25%
- d) 40%

56. The yield on a discount basis of a 90-day \$ 1,000 Treasury bill selling for \$ 950 is _____

- a) 5%
- b) 10%
- c) 15%
- d) 20%**
- e) none of the above.

57. The yield on a discount basis of a 90-day \$ 1,000 Treasury bill selling for \$ 900 is _____

- a) 10%
- b) 20%
- c) 25%
- d) 40%**

58. The yield on a discount basis of a 180-day \$ 1,000 Treasury bill selling for \$ 900 is _____

- a) 10%
- b) 20%**
- c) 25%
- d) 40%

59. When an old bond's market value is above its par value, the bond is selling at a _____
This occurs because the old bond's coupon rate is _____ the coupon rates of new bonds with similar risk.

- a) premium; below
- b) premium; above**
- c) discount; below
- d) discount; above