



FIXED INCOME

MOCK TEST

WITH

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- Assuming bond yields are greater than zero, which of the following statements about zero coupon bonds is least accurate?
 - A zero coupon bond may sell at a premium to par when interest rates decline.
 - All interest is earned at maturity.
 - The lower the price, the greater the return for a given maturity.
- Restrictions on asset sales and additional borrowings by a bond issuer are best characterized as:
 - positive covenants.
 - negative covenants.
 - affirmative covenants.
- A covenant that requires the issuer not to let the insurance coverage lapse on assets pledged as collateral is an example of a(n):
 - affirmative covenant.
 - inhibiting covenant.
 - negative covenant.
- Which of the following fixed income securities is classified as a money market security?
 - Newly issued security that will mature in one year.
 - Security issued 18 months ago that will mature in six months.
 - Security issued six months ago that will mature in one year.
- A bond's indenture least likely specifies the:
 - source of funds for repayment.
 - covenants that apply to the issuer.
 - identity of the lender.
- Which of the following statements about U.S. Treasury Inflation Protection Securities (TIPS) is most accurate?
 - The coupon rate is fixed for the life of the issue.
 - Adjustments to principal values are made annually.
 - The inflation-adjusted principal value cannot be less than par.

7. The indenture of a callable bond states that the bond may be called on the first business day of any month after the first call date. The call option embedded in this bond is a(n):
- (A) American style call option.
 - (B) Bermuda style call option.
 - (C) European style call option.
8. What effects will an increase in yield volatility have on the values of a Puttable bond and a callable bond?
- (A) One bond will increase in value and the other will decrease.
 - (B) Both bonds will increase in value.
 - (C) Both bonds will decrease in value.
9. Which of the following issues is most accurately described as a eurobond?
- (A) Brazilian firm's U.S. dollar-denominated bonds sold to investors in Canada.
 - (B) European Union firm's Japanese yen-denominated bonds sold to investors in Japan.
 - (C) South Korean firm's euro-denominated bonds sold to investors in the European Union.
10. Which of the following securities is least likely classified as a eurobond? A bond that is denominated in:
- (A) euros and issued in Germany.
 - (B) euros and issued in the United States.
 - (C) U.S. dollars and issued in Japan.
11. Assume a bond's quoted price is 105.22 and the accrued interest is \$3.54. The bond has a par value of \$100. What is the bond's clean price?
- (A) \$108.76.
 - (B) \$101.68.
 - (C) \$105.22.

12. What value would an investor place on a 20-year, \$1,000 face value, 10% annual coupon bond, if the investor required a 9% rate of return?
- (A) \$879.
(B) \$920.
(C) \$1,091.
13. A year ago a company issued a bond with a face value of \$1,000 with an 8% coupon. Now the prevailing market yield is 10%. What happens to the bond? The bond:
- (A) is traded at a market price higher than \$1,000.
(B) is traded at a market price of less than \$1,000.
(C) price is not affected by the change in market yield, and will continue to trade at \$1,000.
14. For an option-free bond, as the yield to maturity increases, the bond price:
- (A) decreases at a decreasing rate.
(B) decreases at an increasing rate.
(C) increases at a decreasing rate.
15. Consider a 6-year \$1,000 par bond priced at \$1,011. The coupon rate is 7.5% paid semiannually. Six-year bonds with comparable credit quality have a yield to maturity (YTM) of 6%. Should an investor purchase this bond?
- (A) No, the bond is overvalued by \$64.
(B) Yes, the bond is undervalued by \$38.
(C) Yes, the bond is undervalued by \$64.
16. Matrix pricing is used primarily for pricing bonds that:
- (A) differ from their benchmark bond's credit rating.
(B) differ from their benchmark bond's maturity.
(C) have low liquidity.

17. Neuman Company has bonds outstanding with five years to maturity that trade at a spread of +240 basis points above the five-year government bond yield. Neuman also has five-year bonds outstanding that are identical in all respects except that they are convertible into 30 shares of Neuman common stock. At which of the following spreads are the convertible bonds most likely to trade?
- (A) +210 basis points.
 - (B) +270 basis points.
 - (C) +330 basis points.
18. A 15-year, 10% annual coupon bond is sold for \$1,150. It can be called at the end of 5 years for \$1,100. What is the bond's yield to call (YTC)?
- (A) 8.0%.
 - (B) 8.4%.
 - (C) 9.2%.
19. Which of the following is the most accurate statement about stated and effective annual interest rates?
- (A) The stated rate adjusts for the frequency of compounding.
 - (B) The stated annual interest rate is used to find the effective annual rate.
 - (C) So long as interest is compounded more than once a year, the stated annual rate will always be more than the effective rate.
20. A major brokerage house is currently selling an investment product that offers an 8% rate of return, compounded monthly. Based on this information, it follows that this investment has:
- (A) a periodic interest rate of 0.667%.
 - (B) a stated rate of 0.830%.
 - (C) an effective annual rate of 8.00%.

21. Jacobs Company (Jacobs) has issued floating-rate notes (FRNs) using a market reference rate (MRR) of 3.5%. Jacobs is deemed as having less credit risk than the institution from which the MRR was derived. Which of the following annualized coupon rates for the note is most likely?
- (A) 3.50%.
 - (B) 3.15%.
 - (C) 3.85%.
22. If the discount margin is lower than the quoted margin on a floating rate note, it is most likely that:
- (A) the reference rate has decreased.
 - (B) the note's credit quality has improved.
 - (C) the note is priced at a discount.
23. If the quoted margin (QM) of a floating-rate note (FRN) is deemed to be deficient, the FRN will trade at what price relative to par value?
- (A) At par.
 - (B) Below par.
 - (C) Above par.
24. The relationship between the quoted margin and the discount margin on a floating-rate note (FRN) is such that if the note is priced below par, it must be a case that the discount margin is:
- (A) equal to the quoted margin.
 - (B) greater than the quoted margin.
 - (C) less than the quoted margin.
25. A company issues a \$1 million annual coupon floating-rate note (FRN) with a quoted annual market reference rate (MRR) of 3.5% plus a quoted margin (QM) of 80 basis points. With three years remaining until maturity, the MRR is quoted at the same 3.5% with a discount margin equal to 50 basis points. The estimated value of the FRN is closest to:
- (A) \$1,008,910.
 - (B) \$1,008,325.
 - (C) \$1,007,740.

26. Compared to corporate bonds with the same credit ratings, municipal general obligation (GO) bonds typically have less credit risk because:
- (A) default rates on GOs are typically lower for same credit ratings.
 - (B) GOs are not affected by economic downturns.
 - (C) governments can print money to repay debt.
27. City council of a U.S. municipality has authorized the issuance of \$100 million bonds to finance the construction of a toll road. This bond would most likely be characterized as a(n):
- (A) general obligation (GO) bond.
 - (B) revenue bond.
 - (C) agency bond
28. A credit analyst determines that one of the sovereign governments it recently assessed has a very high interest-to-GDP ratio, while also having low real GDP growth volatility. Based on these two factors only, the analyst would likely conclude that the sovereign government has:
- (A) weak fiscal strength and strong economic growth and stability factors.
 - (B) weak fiscal strength and weak economic growth and stability factors.
 - (C) strong fiscal strength and weak economic growth and stability factors.
29. Which of the following statements about municipal bonds is least accurate?
- (A) municipal bond guarantee is a form of insurance provided by a third party other than the issuer.
 - (B) Bonds with municipal bond guarantees are more liquid in the secondary market and generally have lower required yields.
 - (C) Revenue bonds have lower yields than general obligation bonds because they are backed by specific projects.
30. An institutional investor is considering purchasing sovereign government debt, but is worried that in the event the issuing government refused to pay its obligations, it would have no recourse to the government. To evaluate this risk, the investors should assess the sovereign government's:
- (A) fiscal flexibility factors.
 - (B) institutions and policy factors.
 - (C) monetary effectiveness factors.