Reading 50: Fixed-Income Securities: Defining Elements

Question #1 of 43

Question ID: 415462

The coupon rate of a fixed income security is stated as 90-day LIBOR plus 125 basis points. This security is *most accurately* described as a(n):

- ✗ **A)** variable-rate note.
- ✓ **B)** floating-rate note.
- ✗ **C)** reference-rate note.

Explanation

A floating-rate note has a coupon rate based on a market-determined reference rate such as 90-day LIBOR. Typically the coupon rate will be stated as a margin above the reference rate. A variable-rate note has a margin above the reference rate that is not fixed over the life of the note. An index-linked bond has a coupon payment or principal amount that adjusts based on the value of a published index such as an equity market, commodity, or inflation index.

References

Question From: Session 15 > Reading 50 > LOS e

Related Material:

- Key Concepts by LOS

Question #2 of 43

Question ID: 415439

Every six months a bond pays coupon interest equal to 3% of its par value. This bond is a:

- ✓ **A)** 6% semiannual coupon bond.
- ✗ **B)** 3% semiannual coupon bond.
- ✗ **C)** 6% annual coupon bond.

Explanation

The coupon rate on a bond is the percentage of its par value that it pays in interest each year. The coupon frequency states how often the bond will pay interest. A 6% semiannual coupon bond pays interest twice per year with each coupon equaling half of 6%, or 3%, of par value.

References

Question From: Session 15 > Reading 50 > LOS a

Related Material:

- Key Concepts by LOS

Question #3 of 43

Question ID: 415446

A covenant that requires the issuer not to let the insurance coverage lapse on assets pledged as collateral is an example of a(n):

- ✓ **A)** affirmative covenant.
- ✗ **B)** negative covenant.
- ✗ **C)** inhibiting covenant.

Explanation

Covenants are classified as negative or affirmative. Affirmative covenants specify administrative actions a bond issuer is required to take, such as maintaining insurance coverage on assets pledged as collateral. Negative covenants are restrictions on a bond issuer's actions, such as preventing an issuer from selling any assets that have been pledged as collateral or pledging them again as collateral for additional debt.

References

Question From: Session 15 > Reading 50 > LOS c

Related Material:

- Key Concepts by LOS

Question #4 of 43

Question ID: 415442

Which of the following contains the overall rights of the bondholders?

- ✗ **A)** Rights offering.
- ✗ **B)** Covenant.
- ✓ **C)** Indenture.

Explanation

An indenture specifies the rights of bondholders and the obligations of the issuer. Covenants are specific provisions within the indenture. A rights offering is typically associated with an equity security.

References

Question From: Session 15 > Reading 50 > LOS b

Related Material:

- Key Concepts by LOS

Question #5 of 43

Question ID: 460678

A bond initially does not make periodic payments but instead accrues them over a pre-determined period and then pays a lump sum at the end of that period. The bond subsequently makes regular periodic payments until maturity. Such a bond is *best* described as a:

- ✗ **A)** step-up note.
- ✓ **B)** deferred-coupon bond.
- ✗ **C)** zero-coupon bond.

Explanation

Deferred-coupon bonds carry coupons, but the initial coupon payments are deferred for some period. The coupon payments accrue, at a compound rate, over the deferral period and are paid as a lump sum at the end of that period. After the initial deferment period has passed, these bonds pay regular coupon interest for the rest of the life of the issue (i.e., until the maturity date). Zero coupon bonds do not pay periodic interest. A step-up note has a coupon rate that increases on one or more specified dates during the note's life.

References

Question From: Session 15 > Reading 50 > LOS e

Related Material:

- Key Concepts by LOS

Question #6 of 43

Question ID: 434403

Treasury Inflation Protected Securities, which provide investors with protection against inflation by adjusting the par value and keeping the coupon rate fixed, are *best* described as:

✗ **A)** indexed-annuity bonds.
✓ **B)** capital-indexed bonds.
✗ **C)** interest-indexed bonds.

Explanation

Indexed bonds that adjust the principal value while keeping the coupon rate fixed are best described as capital-indexed bonds. Interest-indexed bonds adjust the coupon rate. Indexed-annuity bonds are fully amortizing with the payments adjusted.

References

Question From: Session 15 > Reading 50 > LOS e

Related Material:

- Key Concepts by LOS

Question #7 of 43

Question ID: 415461

A bond whose periodic payments are all equal is said to have a(n):

✗ **A)** bullet structure.
✓ **B)** amortizing structure.
✗ **C)** balloon structure.

Explanation

Only a fully amortizing structure features payments that are all equal. A bullet structure pays a series of equal coupons but the final coupon is paid at the same time as the bond's principal. A final payment that includes a lump sum in addition to the last interest payment is referred to as a balloon payment.

References

Question From: Session 15 > Reading 50 > LOS e

Related Material:

- Key Concepts by LOS

Question #8 of 43

Question ID: 415444

Features specified in a bond indenture *least likely* include the bond's:

- ✗ **A)** par value and currency.
- ✗ **B)** coupon rate and maturity date.
- ✓ **C)** issuer and rating.

Explanation

Bond ratings are assigned by third-party credit rating agencies and may change during the life of a bond. Features that are specified in the indenture for a fixed income security include its issuer, maturity date, par value, coupon rate and frequency, and currency.

References

Question From: Session 15 > Reading 50 > LOS b

Related Material:

- Key Concepts by LOS

Question #9 of 43

Question ID: 415465

Which of the following statements about the call feature of a bond is *most* accurate? An embedded call option:

- ✗ **A)** describes the maturity date of the bond.
- ✓ **B)** stipulates whether and under what circumstances the issuer can redeem the bond prior to maturity.
- ✗ **C)** stipulates whether and under what circumstances the bondholders can request an earlier repayment of the principal amount prior to maturity.

Explanation

Call provisions give the issuer the right (but not the obligation) to retire all or a part of an issue prior to maturity. If the bonds are "called," the bondholder has no choice but to turn in his bonds. Call features give the issuer the opportunity to get rid of expensive (high coupon) bonds and replace them with lower coupon issues in the event that market interest rates decline during the life of the issue.

Call provisions do not pertain to maturity. A put provision gives the *bondholders* certain rights regarding early payment of principal.

References

Question From: Session 15 > Reading 50 > LOS f

Related Material:

- Key Concepts by LOS

Question #10 of 43

Question ID: 434399

Restrictions on asset sales and borrowings most accurately describe:

- ✗ **A)** affirmative covenants.
- ✓ **B)** negative covenants.
- ✗ **C)** neutral covenants.

Explanation

Negative covenants are restrictions on a borrower's actions. Affirmative covenants are actions a borrower is required to take. There is no category known as neutral covenants.

References

Question From: Session 15 > Reading 50 > LOS c

Related Material:

- Key Concepts by LOS

Question #11 of 43

Question ID: 415448

In most countries including the United States, debenture is defined as:

- ✓ **A)** an unsecured bond.
- ✗ **B)** a bond secured by specific assets.
- ✗ **C)** a short-term debt instrument.

Explanation

In most countries a debenture is defined as unsecured debt.

References

Question From: Session 15 > Reading 50 > LOS d

Related Material:

- Key Concepts by LOS

Question #12 of 43

Question ID: 441029

An investor holds $100,000 (par value) worth of TIPS currently trading at par. The coupon rate of 4% is paid semiannually, and the annual inflation rate is 2.5%. What coupon payment will the investor receive at the end of the first six months?

- ✗ **A)** $2,050.
- ✓ **B)** $2,025.

✗ **C)** $2,000.

Explanation

This coupon payment is computed as follows:

$$\text{coupon payment} = (\$100{,}000 \times 1.0125)\left(\frac{0.04}{2}\right) = \$2{,}025$$

References

Question From: Session 15 > Reading 50 > LOS e

Related Material:

- Key Concepts by LOS

Question #13 of 43

Question ID: 415457

Consider a floating rate issue that has a coupon rate that is reset on January 1 of each year. The coupon rate is defined as one-year London Interbank Offered Rate (LIBOR) + 125 basis points and the coupons are paid semi-annually. If the one-year LIBOR is 6.5% on January 1, which of the following is the semi-annual coupon payment received by the holder of the issue in that year?

✓ **A)** 3.875%.

✗ **B)** 3.250%.

✗ **C)** 7.750%.

Explanation

This value is computed as follows:

Semi-annual coupon = (LIBOR + 125 basis points) / 2 = 3.875%

References

Question From: Session 15 > Reading 50 > LOS e

Related Material:

- Key Concepts by LOS

Question #14 of 43

Question ID: 460676

Which of the following securities is *least likely* classified as a eurobond? A bond that is denominated in:

✗ **A)** U.S. dollars and issued in Japan.

✗ **B)** euros and issued in the United States.

✓ **C)** euros and issued in Germany.

Explanation

Bonds denominated in the currency of the country or region where they are issued are domestic bonds. Eurobonds are denominated in a currency other than those of the countries in which they are sold.

References

Question From: Session 15 > Reading 50 > LOS d

Related Material:

- Key Concepts by LOS

Question #15 of 43

Question ID: 415451

Which of the following is a general problem associated with external credit enhancements? External credit enhancements:

✓ **A)** are subject to the credit risk of the third-party guarantor.

✗ **B)** are only available on a short-term basis.

✗ **C)** are very long-term agreements and are therefore relatively expensive.

Explanation

If the guarantor is downgraded, the issue itself could be subject to downgrade even if the structure is performing as expected.

References

Question From: Session 15 > Reading 50 > LOS d

Related Material:

- Key Concepts by LOS

Question #16 of 43

Question ID: 415441

An analyst observes a 5-year, 10% coupon bond with semiannual payments. The face value is £1,000. How much is each coupon payment?

✗ **A)** £100.

✗ **B)** £25.

✓ **C)** £50.

Explanation

The coupon rate is the percentage of par value paid annually. With semiannual coupons, half of the annual coupon rate is paid every six months. For a 5-year, 10% coupon bond with semiannual payments and a face value of £1,000, each coupon payment is half of 10% times £1,000, or £50.

References

Question From: Session 15 > Reading 50 > LOS a

Related Material:

- Key Concepts by LOS

Question #17 of 43

Question ID: 415443

A bond's indenture *least likely* specifies the:

- ✗ **A)** covenants that apply to the issuer.
- ✗ **B)** source of funds for repayment.
- ✓ **C)** identity of the lender.

Explanation

The identity of the lender (i.e., the bondholder) is not specified in a bond's indenture because a bond may be traded during its life. An indenture or trust deed is a legal contract that specifies a bond issuer's obligations and restrictions. The indenture may include covenants that require the issuer to take or refrain from taking certain actions and may specify the source of funds for repayment, such as a project to be funded or the taxing power of a government.

References

Question From: Session 15 > Reading 50 > LOS b

Related Material:

- Key Concepts by LOS

Question #18 of 43

Question ID: 415456

Allcans, an aluminum producer, needs to issue some debt to finance expansion plans, but wants to hedge its bond interest payments against fluctuations in aluminum prices. Jerrod Price, the company's investment banker, suggests a commodity index floater. This type of bond is *least likely* to provide which of the following advantages?

- ✗ **A)** Payment structure helps protect Allcan's credit rating.
- ✗ **B)** The bond's coupon rate is linked to the price of aluminum.
- ✓ **C)** Allows Allcans to set coupon payments based on business results.

Explanation

The coupon rate is set in the bond agreement (indenture) and cannot be changed unilaterally. Non-interest rate indexed floaters are indexed to a commodity price such as oil or aluminum. Business results could be impacted by numerous factors other than aluminum prices.

Both of the other choices are true. By linking the coupon payments directly to the price of aluminum (meaning that when aluminum prices increase, the coupon rate increases and vice versa), the non-interest index floater allows Allcans to protect its credit rating during adverse circumstances.

References

Question From: Session 15 > Reading 50 > LOS e

Related Material:

- Key Concepts by LOS

Question #19 of 43

Question ID: 415450

Which of the following is *least likely* an example of external credit enhancements?

✗ **A)** Bank guarantees.

✓ **B)** Excess spread.

✗ **C)** Letters of credit.

Explanation

Excess spread is an example of internal, not external credit enhancement.

References

Question From: Session 15 > Reading 50 > LOS d

Related Material:

- Key Concepts by LOS

Question #20 of 43

Question ID: 415460

Which of the following statements about U.S. Treasury Inflation Protection Securities (TIPS) is *most* accurate?

✓ **A)** The coupon rate is fixed for the life of the issue.

✗ **B)** Adjustments to principal values are made annually.

✗ **C)** The inflation-adjusted principal value cannot be less than par.

Explanation

The coupon rate is set at a fixed rate determined via auction. This is called the real rate. The principal that serves as the basis of the coupon payment and the maturity value is adjusted semiannually. Because of the possibility of deflation, the adjusted principal value may be less than par (however, at maturity the Treasury redeems the bonds at the greater of the inflation-adjusted principal and the initial par value).

References

Question From: Session 15 > Reading 50 > LOS e

Related Material:

- Key Concepts by LOS

Question #21 of 43

Question ID: 415469

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.

Explanation

A bond with a Bermuda style embedded call option may be called on prespecified dates after the first call date. A European style embedded call option specifies a single date on which a bond may be called. With an American style embedded call option, a bond may be called any time after its first call date.

References

Question From: Session 15 > Reading 50 > LOS f

Related Material:

- Key Concepts by LOS

Question #22 of 43

Question ID: 415453

Which of the following issues is *most accurately* described as a eurobond?

- ✗ **A)** South Korean firm's euro-denominated bonds sold to investors in the European Union.
- ✓ **B)** Brazilian firm's U.S. dollar-denominated bonds sold to investors in Canada.
- ✗ **C)** European Union firm's Japanese yen-denominated bonds sold to investors in Japan.

Explanation

Eurobonds are denominated in a currency other than that of the countries in which they are issued. The name "eurobond" does not imply that a bond is sold in Europe or by a European issuer, or denominated in the euro currency. A U.S. dollar-denominated bond sold to investors outside the United States is called a "eurodollar bond."

References

Question From: Session 15 > Reading 50 > LOS d

Related Material:

- Key Concepts by LOS

Question #23 of 43

Question ID: 627889

Which of the following entities play a critical role in the ability to create a securitized bond with a higher credit rating than the corporation?

- ✗ **A)** Investment banks.
- ✗ **B)** Rating agencies.
- ✓ **C)** Special purpose entities.

Explanation

Special purpose entities (SPEs), buy the assets from the corporation. The SPE separates the assets used as collateral from the corporation that is seeking financing. This shields the assets from other creditors.

References

Question From: Session 15 > Reading 50 > LOS d

Related Material:

- Key Concepts by LOS

Question #24 of 43

Question ID: 460680

Which of the following embedded bond options tends to benefit the borrower?

- ✗ **A)** Put option.
- ✓ **B)** Interest rate cap.
- ✗ **C)** Conversion option.

Explanation

The interest rate cap benefits the borrower who issues a floating rate bond. The cap places a restriction on how high the coupon rate can become during a rising interest rate environment. Therefore, the floating rate borrower is protected against ever-rising interest rates.

References

Question From: Session 15 > Reading 50 > LOS f

Related Material:

- Key Concepts by LOS

Question #25 of 43

Question ID: 415437

Which of the following statements about zero-coupon bonds is *least* accurate?

- ✓ **A)** A zero coupon bond may sell at a premium to par when interest rates decline.
- ✗ **B)** The lower the price, the greater the return for a given maturity.
- ✗ **C)** All interest is earned at maturity.

Explanation

Zero coupon bonds always sell below their par value, or at a discount prior to maturity. The amount of the discount may change as interest rates change, but a zero coupon bond will always be priced less than par.

References

Question From: Session 15 > Reading 50 > LOS a

Related Material:

- Key Concepts by LOS

Question #26 of 43

Question ID: 434400

Which of the following statements regarding Eurobonds is *least accurate*? Eurobonds are:

- ✓ **A)** typically registered rather than bearer bonds.
- ✗ **B)** issued simultaneously to investors in many countries.
- ✗ **C)** issued in a currency other than the issuer's domestic currency.

Explanation

Eurobonds are typically bearer bonds rather than registered because they are issued outside the jurisdiction of any single country.

References

Question From: Session 15 > Reading 50 > LOS d

Related Material:

- Key Concepts by LOS

Question #27 of 43

Question ID: 415468

Which of the following embedded options in a fixed income security can be exercised by the issuer?

✓ **A)** Call option.
✗ **B)** Conversion option.
✗ **C)** Put option.

Explanation

Securities with embedded call options may be called by the issuer. An embedded put option gives the bondholder the right to sell (put) the security back to the issuer. A conversion option gives the bondholder the right to exchange the security for the issuer's common stock.

References

Question From: Session 15 > Reading 50 > LOS f

Related Material:

- Key Concepts by LOS

Question #28 of 43

Question ID: 722203

PRC International just completed a $234 million floating rate convertible bond offering. As stated in the indenture, the interest rate on the bond is the lesser of 90-day LIBOR or 10%. The indenture also requires PRC to retire $5.6 million per year with the option to retire as much as $10 million. Which of the following embedded options is *most likely* to benefit the investor? The:

✓ **A)** conversion option on the convertible bonds.
✗ **B)** sinking fund provision for principal repayment.
✗ **C)** 10% cap on the floating interest rate.

Explanation

The conversion privilege is an option granted to the bondholder. The cap benefits the issuer. A sinking fund is not an embedded option; it is an obligation of the issuer.

References

Question From: Session 15 > Reading 50 > LOS f

Related Material:

- Key Concepts by LOS

Question #29 of 43

Question ID: 415440

Which of the following fixed income securities is classified as a money market security?

✓ **A)** Newly issued security that will mature in one year.

✗ **B)** Security issued 18 months ago that will mature in six months.

✗ **C)** Security issued six months ago that will mature in one year.

Explanation

Money market securities have original maturities of one year or less. Fixed income securities originally issued with maturities longer than one year are classified as capital market securities.

References

Question From: Session 15 > Reading 50 > LOS a

Related Material:

- Key Concepts by LOS

Question #30 of 43

Question ID: 415463

Consider $1,000,000 par value, 10-year, 6.5% coupon bonds issued on January 1, 20X5. The market rate for similar bonds is currently 5.7%. A sinking fund provision requires the company to redeem $100,000 of the principal each year. Bonds called under the terms of the sinking fund provision will be redeemed at par. A bondholder would:

✗ **A)** prefer to have her bonds called under the sinking fund provision.

✓ **B)** prefer not to have her bonds called under the sinking fund provision.

✗ **C)** be indifferent between having her bonds called under the sinking fund provision or not called.

Explanation

With the market rate currently below the coupon rate, the bonds will be trading at a premium to par value. Thus, a bondholder would prefer not to have her bonds called under the sinking fund provision.

References

Question From: Session 15 > Reading 50 > LOS e

Related Material:

- Key Concepts by LOS

Question #31 of 43

Question ID: 722202

Which of the following statements regarding a sinking fund provision is *most* accurate?

✓ **A)** It requires that the issuer retire a portion of the principal through a series of principal payments over the life of the bond.

✗ **B)** It requires that the issuer set aside money based on a predefined schedule to accumulate the cash to retire the bonds at maturity.

✗ **C)** It permits the issuer to retire more than the stipulated amount if they choose.

Explanation

A sinking fund actually retires the bonds based on a schedule. This can be accomplished through either payment of cash or through the delivery of securities. A sinking fund provision may allow the issuer to retire more than is stipulated in the indenture, but not all sinking fund provisions allow this.

References

Question From: Session 15 > Reading 50 > LOS e

Related Material:

- Key Concepts by LOS

Question #32 of 43

Question ID: 415458

A bond has a par value of $5,000 and a coupon rate of 8.5% payable semi-annually. The bond is currently trading at 112.16. What is the dollar amount of the semi-annual coupon payment?

✓ **A)** $212.50.

✗ **B)** $425.00.

✗ **C)** $238.33.

Explanation

The dollar amount of the coupon payment is computed as follows:

Coupon in $ = $5,000 × 0.085 / 2 = $212.50

References

Question From: Session 15 > Reading 50 > LOS e

Related Material:

- Key Concepts by LOS

Question #33 of 43

Question ID: 434401

Which of the following is *least likely* a form of internal credit enhancement for a bond issue?

✓ **A)** Covering the bond issue via a surety bond.

✗ **B)** Including a tranche system to identify priority of claims.

✗ **C)** Structuring the asset pool such that it has an excess spread.

Explanation

A surety bond is issued by a third party and hence is an external form of credit enhancement.

References

Question From: Session 15 > Reading 50 > LOS d

Related Material:

- Key Concepts by LOS

Question #34 of 43

Question ID: 415445

Which of the following bond covenants is considered *negative*?

✗ **A)** Maintenance of collateral.

✗ **B)** Payment of taxes.

✓ **C)** No additional debt.

Explanation

Negative covenants set forth limitations and restrictions, whereas affirmative covenants primarily set forth administrative activities that the borrower promises to do.

References

Question From: Session 15 > Reading 50 > LOS c

Related Material:

- Key Concepts by LOS

Question #35 of 43

Question ID: 415454

Securitized bonds are *most likely* to be issued by:

✗ **A)** banking institutions.

✓ **B)** special purpose entities.

✗ **C)** supranational entities.

Explanation

The issuer of a securitized bond is typically a special purpose entity (SPE), also known as a special purpose vehicle (SPV) or special purpose company (SPC). An SPE is formed specifically to purchase and administer assets that will provide the cash flows to pay interest and principal on bonds the entity issues. These bonds are called securitized bonds.

References

Question From: Session 15 > Reading 50 > LOS d

Related Material:

- Key Concepts by LOS

Question #36 of 43

Question ID: 415452

To reduce the cost of long-term borrowing, a corporation with a below average credit rating could:

- ✗ **A)** decrease credit enhancement.
- ✓ **B)** issue securitized bonds.
- ✗ **C)** issue commercial paper.

Explanation

Commercial paper is only issued by corporations with top credit ratings. Decreasing credit enhancements increase the cost of borrowing.

References

Question From: Session 15 > Reading 50 > LOS d

Related Material:

- Key Concepts by LOS

Question #37 of 43

Question ID: 655192

A company desiring to issue a fixed-income security has placed $10 million worth of loan receivables in a special purpose entity (SPE) that is independent of the issuer. The credit rating agencies suggest the company secure a third-party guarantee in order to have the security rated AAA. After completing the transfer of assets to the SPE and obtaining a letter of credit from a national bank, the company issues the AAA rated security. The securities are *most likely*:

- ✗ **A)** global bonds.
- ✗ **B)** commercial paper.
- ✓ **C)** asset backed securities.

Explanation

Special purpose entities relate to asset-backed securities.

References

Question From: Session 15 > Reading 50 > LOS d

Related Material:

- Key Concepts by LOS

Question #38 of 43

Question ID: 485805

Which of the following statements about floating-rate notes is *most accurate*?

- ✓ **A)** Floating-rate notes have built-in floors, while inverse floating-rate notes have built-in caps.
- ✗ **B)** The coupon payment on a floating-rate note at each reset date is typically based on LIBOR as of that date.

✗ **C)** Inverse floating-rate notes are attractive to investors who expect interest rates to rise, while floating-rate notes are attractive to investors who expect interest rates to fall.

Explanation

The lowest possible reference rate is zero. If this occurs, the coupon on a floating-rate note cannot go lower than its quoted margin. Hence, the quoted margin is a floor coupon for a floating-rate note. The coupon on an inverse floater is determined by a formula such as "15% - 1.5 × reference rate." If the reference rate goes to zero, the coupon on this inverse floater can go no higher than 15%.

References

Question From: Session 15 > Reading 50 > LOS e

Related Material:

- Key Concepts by LOS

Question #39 of 43

Question ID: 415447

Which of the following is *least likely* an example of external credit enhancement?

✗ **A)** Surety bond.

✓ **B)** Excess spread.

✗ **C)** Bank guarantee.

Explanation

Excess spread is an internal credit enhancement. External credit enhancements include bank guarantees, letters of credit, and surety bonds.

References

Question From: Session 15 > Reading 50 > LOS d

Related Material:

- Key Concepts by LOS

Question #40 of 43

Question ID: 415455

Which of the following statements with regard to floating rate notes that have caps and floors is *most* accurate?

✗ **A)** A cap is an advantage to the bondholder while a floor is an advantage to the issuer.

✓ **B)** A cap is a disadvantage to the bondholder while a floor is a disadvantage to the issuer.

✗ **C)** A floor is a disadvantage to both the issuer and the bondholder while a cap is an advantage to both the issuer and the bondholder.

Explanation

A cap limits the upside potential of the coupon rate paid on the floating rate bond and is therefore a disadvantage to the bondholder. A floor limits the downside potential of the coupon rate and is therefore a disadvantage to the bond issuer.

References

Question From: Session 15 > Reading 50 > LOS e

Related Material:

- Key Concepts by LOS

Question #41 of 43

Question ID: 415438

A bond is trading at a premium if its:

- ✗ **A)** redemption value is greater than its face value.
- ✗ **B)** yield is greater than its coupon rate.
- ✓ **C)** price is greater than its par value.

Explanation

If a bond's price is greater than its par value, the bond is trading at a premium. If a bond's yield is greater than its coupon rate, its price is less than par value and the bond is trading at a discount. Face value and redemption value both refer to par value.

References

Question From: Session 15 > Reading 50 > LOS a

Related Material:

- Key Concepts by LOS

Question #42 of 43

Question ID: 415466

As compared to an equivalent noncallable bond, a callable bond's yield should be:

- ✗ **A)** lower.
- ✗ **B)** the same.
- ✓ **C)** higher.

Explanation

A callable bond favors the issuer. Hence, the value of the bond is discounted by the value of the option, which means the yield will be higher.

References

Question From: Session 15 > Reading 50 > LOS f

Related Material:

- Key Concepts by LOS

Question #43 of 43

Question ID: 415467

As compared to an equivalent nonputable bond, a putable bond's yield should be:

- ✗ **A)** higher.
- ✓ **B)** lower.
- ✗ **C)** the same.

Explanation

A putable bond favors the buyer (investor). Hence, a premium will be paid for the option, which means the yield will be lower.

References

Question From: Session 15 > Reading 50 > LOS f

Related Material:

- Key Concepts by LOS