Question #1 of 38

The risk of receiving less than market value when selling a bond is referred to as:

A) recovery rate risk.

B) market liquidity risk.

C) loss severity risk.

Question #2 of 38

Jequa is a Japanese company with the following selected financial information:

	¥ billions
Net income from continuing operations	503
Depreciation & amortization	256
Capital expenditures	140
Cash flow from operations	361
Dividends	72

Jequa's funds from operations (FFO) is *closest to*:

A) ¥247 billion.

B) ¥149 billion.

C) ¥759 billion.

Question #3 of 38

Steven Company has EBITDA/interest and debt-to-capital ratios that are both higher compared to Joseph Company to a degree consistent with one level of issuer credit rating. Based only on this information, the credit rating of Steven is *most likely* to be:

A) higher than Joseph.

B) the same as Joseph.

C) lower than Joseph.

Question #4 of 38

The type of credit risk that is defined as the possibility that a borrower will fail to pay interest or repay principal when due is:

A) credit spread risk.

B) default risk.

C) downgrade risk.

Question #5 of 38

Compared to corporate bonds with the same credit ratings, municipal general obligation (GO) bonds typically have less credit risk because:

A) governments can print money to repay debt.

B) GOs are not affected by economic downturns.

C) default rates on GOs are typically lower for same credit ratings.

Question #6 of 38

Which of the following bonds from the same corporate issuer has the lowest priority of claims?

A) Collateral trust bond.

B) Senior unsecured debenture.

C) Equipment trust certificate.

Question #7 of 38

Support for revenue bonds comes from:

A) the full faith and credit of the issuing municipality.

B) income generated by the underlying project.

C) property taxes based on the project.

Question #8 of 38

Debt with a lower priority of claims than a firm's unsecured debt is *best* described as:

A) subordinated.

B) second lien.

C) pari passu.

Question #9 of 38

Which of the following is the reason why credit spreads between high quality bonds and low quality bonds widen during poor economic conditions?

A) interest risk.

B) default risk.

C) indenture provisions.

Question #10 of 38

Recovery rates are greatest for classes of debt with the highest:

A) loss severity.

B) default rates.

C) priority of claims.

Question #11 of 38

Which component of traditional credit analysis includes evaluation of industry structure, industry fundamentals, and company fundamentals?

A) Capacity.

B) Covenants.

C) Collateral.

Question #12 of 38

Structural subordination is *most likely* to be a credit rating consideration for:

A) general obligation municipal bonds.

B) high-yield corporate bonds.

C) emerging market sovereign bonds.

Question #13 of 38

In a sovereign debt credit rating, a country's foreign reserves, its external debt, and the status of its currency in foreign exchange markets are key factors for evaluating the country's:

A) monetary flexibility.

B) international investment position.

C) fiscal flexibility.

Question #14 of 38

The "four Cs" of credit analysis include:

A) circumstances and covenants.

B) collateral and capital.

C) capacity and character.

Question #15 of 38

If investors expect greater uncertainty in the bond markets, yield spreads between AAA and B rated bonds are *most likely* to:

A) widen.

B) slope downward.

C) narrow.

Question #16 of 38

Senior subordinated bonds have a priority of claims over:

A) first lien debt.

B) subordinated bonds.

C) secured bonds.

Question #17 of 38

The factors that must be considered when estimating the credit risk of a bond include:

A) the bond rating, the recovery rate, and the yield volatility.

B) only the bond rating.

C) only the bond rating and the recovery rate.

Question #18 of 38

Which of the following *best* describes risks in relying on credit agency ratings?

A) Credit ratings are assigned only at issuance.

B) Event risk is difficult for rating agencies to assess.

C) Credit ratings tend to lead market prices.

Question #19 of 38

When calculating credit ratios, an analyst should increase a company's reported total debt if the company has:

A) operating lease obligations.

B) a net pension asset on its balance sheet.

C) a debt guarantee from a parent or third party.

Question #20 of 38

Analysis of a firm's intellectual capital, equity market capitalization, depreciation, and intangible assets is associated with which aspect of credit analysis?

A) Collateral.

B) Covenants.

C) Capacity.

Question #21 of 38

A non-callable bond with 18 years remaining maturity has an annual coupon of 7% and a $1,000 par value. The current yield to maturity on the bond is 8%. Using a 50bp change in YTM, the approximate modified duration of the bond is:

A) 9.63.

B) 8.24.

C) 11.89.

Question #22 of 38

An increase in net income is *most likely* to decrease a borrower's:

A) debt-to-EBITDA ratio.

B) FFO-to-debt ratio.

C) operating margin.

Question #23 of 38

Which of the following statements about municipal bonds is *least* accurate?

A) Revenue bonds have lower yields than general obligation bonds because there are more revenue bands and they have higher liquidity.

B) A municipal bond guarantee is a form of insurance provided by a third party other than the issuer.

C) Bonds with municipal bond guarantees are more liquid in the secondary market and generally have lower required yields.

Question #24 of 38

A firm with a corporate family rating (CFR) of A3/A- issues secured bonds. Covenants to these bonds include a limitation on liens and a change of control put. If credit rating agencies notch this issue, its credit rating is *most likely* to be:

A) Baa2/BBB.

B) Baa1/BBB+.

C) A2/A.

Question #25 of 38

One notable difference between an issuer credit rating and an issue credit rating is that an:

A) issue credit rating applies to the issuer's senior unsecured debt.

B) issue credit rating is always notched below the issuer rating.

C) issuer credit rating reflects the borrower's overall creditworthiness.

Question #26 of 38

Expected loss is greatest for a corporate bond with a low:

A) recovery rate and a low probability of default.

B) recovery rate and a high probability of default.

C) loss severity and a high probability of default.

Question #27 of 38

Consider three municipal bonds issued by the Greater Holmen Metropolitan Capital Improvement District, a local authority that carries an issuer rating of single-A from the major debt rating agencies. All three bonds have the same coupon rate and maturity date.

- Series W was issued to finance the rebuilding and expansion of local schools and is backed by the District's authority to levy property tax.
- Series X was issued to build a water purification plant for the region. The District charges fees to the surrounding municipalities for their use of the plant. These fees are the only source of the interest and principal payments on the bonds.
- Series Y was issued to raise funds for the general use of the District in its ordinary maintenance projects and is backed by the District's authority to levy property tax. These bonds carry a third party guarantee of principal and interest payments.

What is *most likely* the order of the market yields on these three bond issues, from highest to lowest?

A) Series X, Series Y, Series W.

B) Series X, Series W, Series Y.

C) Series Y, Series W, Series X.

Question #28 of 38

A restricted payment covenant in a high yield bond indenture protects lenders by:

A) requiring the borrower to buy back its debt if the company is sold.

B) making a parent company's debt rank pari passu with a subsidiary's debt.

C) limiting the amount of cash paid to equity holders.

Question #29 of 38

What is the *most likely* effect on yield spreads when demand for bonds is high and supply of bonds is low?

A) Yield spreads are likely to narrow.

B) Yield spreads are likely to widen.

C) The effect on yield spreads will depend on whether supply or demand is the stronger influence.

Question #30 of 38

Fraud and malfeasance, soundness of strategy, and prior treatment of bondholders are criteria to evaluate a borrower's:

A) covenants.

B) character.

C) capacity.

Question #31 of 38

Which of the following is the most appropriate strategy for a fixed income portfolio manager under the anticipation of an economic expansion?

A) Sell corporate bonds and purchase Treasury bonds.

B) Sell lower-rated corporate bonds and buy higher-rated corporate bonds.

C) Purchase corporate bonds and sell Treasury bonds.

Question #32 of 38

Bond X and Bond Y have the same par value, coupon, maturity, and credit rating, but Bond X trades at a higher price than Bond Y. A possible reason for this difference is that:

A) Bond X has a higher expected loss in a default.

B) the market expects a downgrade to Bond Y's credit rating.

C) Bond Y has a higher expected recovery rate in a default.

Question #33 of 38

Bond investors should not rely exclusively on credit agency ratings because:

A) credit ratings may change over time.

B) default rates are higher for lower-rated bonds.

C) market pricing tends to lag changes in credit ratings.

Question #34 of 38

Loss severity is *most accurately* defined as the:

A) percentage of a bond's value a bondholder will receive if the issuer defaults.

B) amount a bondholder will lose if the issuer defaults.

C) probability that a bond issuer will default.

Question #35 of 38

Structural subordination means that a parent company's debt:

A) ranks pari passu with a subsidiary's debt with respect to the subsidiary's cash flows.

B) has a higher priority of claims to a subsidiary's cash flows than the subsidiary's debt.

C) has a lower priority of claims to a subsidiary's cash flows than the subsidiary's debt.

Question #36 of 38

Becque Ltd. is a European Union company with the following selected financial information:

€ billions	Year 1	Year 2	Year 3
Operating income	262	361	503
Depreciation & amortization	201	212	256
Capital expenditures	78	97	140
Cash flow from operations	303	466	361
Total debt	2,590	2,717	2,650
Dividends	70	70	72

Becque's three-year average debt-to-EBITDA ratio is *closest to*:

A) 3.6x.

B) 7.6x.

C) 4.6x.

Question #37 of 38

If a U.S. investor is forecasting that the yield spread between U.S. Treasury bonds and U.S. corporate bonds is going to widen, then which of the following is most likely to be CORRECT?

A) The economy is going to contract.

B) The economy is going to expand.

C) The U.S. dollar will weaken.

Question #38 of 38

Yield spreads tend to widen when equity market performance is:

A) strong.

B) stable.

C) weak.