

- 1) A loan that requires the borrower to make the same payment every period until the maturity date is called a
- A) simple loan.
 - B) fixed-payment loan.
 - C) discount loan.
 - D) a same-payment loan.
 - E) none of the above.

Answer: B

- 2) A coupon bond pays the owner of the bond
- A) the same amount every month until maturity date.
 - B) the face value of the bond plus an interest payment once the maturity date has been reached.
 - 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.

Answer: C

- 3) If a \$5,000 coupon bond has a coupon rate of 13 percent, then the coupon payment every year is
- A) \$650.
 - B) \$1,300.
 - C) \$130.
 - D) \$13.
 - E) None of the above.

Answer: A

- 4) An \$8,000 coupon bond with a \$400 coupon payment every year has a coupon rate of
- A) 5 percent
 - B) 8 percent
 - C) 10 percent
 - D) 40 percent

Answer: A

- 5) A \$16,000 coupon bond with an \$800 coupon payment every year has a coupon rate of
- A) 4 percent.
 - B) 8 percent.
 - C) 10 percent.
 - D) 40 percent.
 - E) None of the above.

Answer: E

- 6) A \$10,000 coupon bond with an \$800 coupon payment every year has a coupon rate of
- A) 4 percent.
 - B) 8 percent.
 - C) 10 percent.
 - D) 40 percent.

Answer: B

- 7) With an interest rate of 5 percent, the present value of \$100 next year is approximately
- A) \$100. B) \$105. C) \$95. D) \$90.

Answer: C

- 8) With an interest rate of 10 percent, the present value of a security that pays \$1,100 next year and \$1,460 four years from now is:
- A) \$1,000. B) \$2,560. C) \$3,000. D) \$2,000.

Answer: D

- 9) If a security pays \$110 next year and \$121 the year after that what is its yield to maturity if it sells for \$200?
- A) 9 percent B) 10 percent C) 11 percent D) 12 percent

Answer: B

- 10) Which of the following \$1,000 face-value securities has the highest yield to maturity?
- A) A 5 percent coupon bond with a price of \$600
B) A 5 percent coupon bond with a price of \$800.
C) A 5 percent coupon bond with a price of \$1,000.
D) A 5 percent coupon bond with a price of \$1,200.
E) A 5 percent coupon bond with a price of \$1,500.

Answer: A

- 11) Which of the following \$1,000 face-value securities has the lowest yield to maturity?
- A) A 15 percent coupon bond with a price of \$600.
B) A 15 percent coupon bond with a price of \$800.
C) A 15 percent coupon bond with a price of \$1,000.
D) A 15 percent coupon bond with a price of \$1,200.
E) A 15 percent coupon bond with a price of \$1,500.

Answer: E

- 12) Which of the following \$1,000 face-value securities has the highest yield to maturity?
- A) A 5 percent coupon bond selling for \$1,000 B) A 10 percent coupon bond selling for \$1,000
C) A 12 percent coupon bond selling for \$1,000 D) A 12 percent coupon bond selling for \$1,100

Answer: C

- 13) Which of the following \$1,000 face-value securities has the highest yield to maturity?
- A) A 5 percent coupon bond selling for \$1,000 B) A 10 percent coupon bond selling for \$1,000
C) A 15 percent coupon bond selling for \$1,000 D) A 15 percent coupon bond selling for \$900

Answer: D

- 14) Which of the following \$1,000 face-value securities has the lowest yield to maturity?
- A) A 5 percent coupon bond selling for \$1,000 B) A 10 percent coupon bond selling for \$1,000
C) A 15 percent coupon bond selling for \$1,000 D) A 15 percent coupon bond selling for \$900

Answer: A

- 15) If a \$10,000 face-value discount bond maturing in one year is selling for \$5,000, then its yield to maturity is
- A) 5 percent. B) 10 percent. C) 50 percent. D) 100 percent.

Answer: D

- 16) 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) 5 percent. C) 10 percent. D) 20 percent.

Answer: A

- 17) The current yield on a \$5,000, 8 percent coupon bond selling for \$4,000 is

- A) 5 percent.
B) 8 percent.
C) 10 percent.
D) 20 percent.
E) none of the above.

Answer: C

- 18) The current yield on a \$6,000, 10 percent coupon bond selling for \$5,000 is

- A) 5 percent. B) 10 percent. C) 12 percent. D) 15 percent.

Answer: C

- 19) The yield on a discount basis of a 30-day, \$1,000 Treasury bill selling for \$950 is

- A) 5 percent.
B) 10 percent.
C) 20 percent.
D) 50 percent.
E) none of the above.

Answer: E

- 20) What is the return on a 5 percent coupon bond that initially sells for \$1,000 and sells for \$1,200 next year?

- A) 5 percent
B) 10 percent
C) -5 percent
D) 25 percent
E) None of the above

Answer: D

- 21) If the interest rates on all bonds rise from 5 to 6 percent over the course of the year, which bond would you prefer to have been holding?

- A) A bond with one year to maturity B) A bond with five years to maturity
C) A bond with ten years to maturity D) A bond with twenty years to maturity

Answer: A

- 22) If you expect the inflation rate to be 15 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) 7 percent.
 - B) 22 percent.
 - C) -15 percent.
 - D) -8 percent.
 - E) none of the above.

Answer: D

- 23) In which of the following situations would you prefer to be making a loan?
- A) The interest rate is 9 percent and the expected inflation rate is 7 percent.
 - B) The interest rate is 4 percent and the expected inflation rate is 1 percent.
 - C) The interest rate is 13 percent and the expected inflation rate is 15 percent.
 - D) The interest rate is 25 percent and the expected inflation rate is 50 percent.

Answer: B

- 24) In which of the following situations would you prefer to be borrowing?
- A) The interest rate is 9 percent and the expected inflation rate is 7 percent.
 - B) The interest rate is 4 percent and the expected inflation rate is 1 percent.
 - C) The interest rate is 13 percent and the expected inflation rate is 15 percent.
 - D) The interest rate is 25 percent and the expected inflation rate is 50 percent.

Answer: D

- 25) The current yield, which equals the coupon payment divided by the price of a coupon bond, is a less accurate measure of the yield to maturity the _____ the maturity of the bond and the _____ the price is from/to the par value.
- A) shorter; closer
 - B) shorter; farther
 - C) longer; closer
 - D) longer; farther

Answer: B

- 26) The nominal interest rate minus the expected rate of inflation
- A) defines the real interest rate.
 - B) is a better measure of the incentives to borrow and lend than is the nominal interest rate.
 - C) is a more accurate indicator of the tightness of credit market conditions than is the nominal interest rate.
 - D) indicates all of the above.
 - E) indicates only (a) and (b) of the above.

Answer: D

- 27) 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) simple loan.
 - B) fixed-payment loan.
 - C) coupon bond.
 - D) discount bond.

Answer: A

28) A credit market instrument that requires the borrower to make the same payment every period until the maturity date is known as a

- A) simple loan.
- B) fixed-payment loan.
- C) coupon bond.
- D) discount bond.

Answer: B

29) A credit market instrument that pays the owner a fixed coupon payment every year until the maturity date and then repays the face value is called a

- A) simple loan.
- B) fixed-payment loan.
- C) coupon bond.
- D) discount bond.

Answer: C

30) A credit market instrument that pays the owner the face value of the security at the maturity date and nothing prior to then is called a

- A) simple loan.
- B) fixed-payment loan.
- C) coupon bond.
- D) discount bond.

Answer: D

31) 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) simple loan.
- B) fixed-payment loan.
- C) coupon bond.
- D) discount bond.

Answer: D

32) A _____ pays the owner a fixed coupon payment every year until the maturity date, when the _____ value is repaid.

- A) coupon bond; discount
- B) discount bond; discount
- C) coupon bond; face
- D) discount bond; face

Answer: C

33) A _____ is bought at a price below its face value, and the _____ value is repaid at the maturity date.

- A) coupon bond; discount
- B) discount bond; discount
- C) coupon bond; face
- D) discount bond; face

Answer: D

34) Examples of discount bonds include

- A) U.S. Treasury bills.
- B) U.S. Savings bonds.
- C) zero-coupon bonds.
- D) all of the above.
- E) only (a) and (b) of the above.

Answer: D

35) Examples of discount bonds include

- A) U.S. Treasury bills.
- B) U.S. Savings bonds.
- C) U.S. Treasury notes.
- D) all of the above.
- E) only (a) and (b) of the above.

Answer: E

36) The yield to maturity for a one-year discount bond equals

- A) the increase in price over the year, divided by the initial price.
- B) the increase in price over the year, divided by the face value.
- C) the increase in price over the year, divided by the interest rate.
- D) none of the above.

Answer: A

37) For simple loans, the simple interest rate is _____ the yield to maturity.

- A) greater than
- B) less than
- C) equal to
- D) not comparable to

Answer: C

38) The interest rate that economists consider to be the most accurate measure is the

- A) current yield.
- B) yield to maturity.
- C) yield on a discount basis.
- D) coupon rate.

Answer: B

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

- A) underestimate
- B) overestimate
- C) exact measure
- D) approximate measure

Answer: C

40) If a \$20,000 coupon bond has a coupon rate of 4 percent, then the coupon payment every year is

- A) \$40.
- B) \$80.
- C) \$400.
- D) \$800.

Answer: D

41) If a \$6,000 coupon bond has a coupon rate of 8 percent, then the coupon payment every year is

- A) \$48.
- B) \$240.
- C) \$480.
- D) \$320.
- E) none of the above.

Answer: C

- 42) A \$6,000 coupon bond with a \$240 coupon payment every year has a coupon rate of
A) 2 percent. B) 4 percent. C) 6 percent. D) 8 percent.

Answer: B

- 43) A \$6,000 coupon bond with a \$360 coupon payment every year has a coupon rate of
A) 2 percent. B) 4 percent. C) 6 percent. D) 8 percent.

Answer: C

- 44) A \$6,000 coupon bond with a \$480 coupon payment every year has a coupon rate of
A) 2 percent. B) 4 percent. C) 6 percent. D) 8 percent.

Answer: D

- 45) A \$4,000 coupon bond with a \$360 coupon payment every year has a coupon rate of
A) 3 percent. B) 6 percent. C) 9 percent. D) 12 percent.

Answer: C

- 46) With an interest rate of 8 percent, the present value of \$100 next year is approximately
A) \$108. B) \$100. C) \$96. D) \$93.

Answer: D

- 47) With an interest rate of 6 percent, the present value of \$100 next year is approximately
A) \$106. B) \$100. C) \$94. D) \$92.

Answer: C

- 48) With an interest rate of 4 percent, the present value of \$100 next year is approximately
A) \$104. B) \$100. C) \$96. D) \$92.

Answer: C

- 49) If a security pays \$105 next year and \$110 the year after that, what is its yield to maturity if it sells for \$200?
A) 4 percent B) 5 percent C) 6 percent D) 10 percent

Answer: B

- 50) 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; yield to maturity B) current yield; coupon rate
C) yield to maturity; current yield D) yield to maturity; coupon rate

Answer: A

- 51) Prices and returns for _____ bonds are more volatile than those for _____ bonds.

- A) long-term; long-term B) long-term; short-term
C) short-term; long-term D) short-term; short-term

Answer: B

- 52) If a \$10,000 face-value discount bond maturing in one year is selling for \$8,000, then its yield to maturity is
A) 10 percent. B) 20 percent. C) 25 percent. D) 40 percent.

Answer: C

- 53) If a \$10,000 face-value discount bond maturing in one year is selling for \$9,000, then its yield to maturity is
A) 9 percent. B) 10 percent. C) 11 percent. D) 12 percent.

Answer: C

- 54) If a \$10,000 face-value discount bond maturing in one year is selling for \$6,000, then its yield to maturity is
A) 30 percent. B) 33 percent. C) 60 percent. D) 66 percent.

Answer: D

- 55) The current yield on a \$10,000, 10 percent coupon bond selling for \$5,000 is
A) 30 percent. B) 33 percent. C) 60 percent. D) 20 percent.

Answer: D

- 56) The current yield on a \$10,000, 10 percent coupon bond selling for \$8,000 is
A) 10.0 percent. B) 12.5 percent. C) 15.0 percent. D) 17.5 percent.

Answer: B

- 57) The current yield on a \$10,000, 10 percent coupon bond selling for \$9,000 is
A) 9 percent. B) 10 percent. C) 11 percent. D) 12 percent.

Answer: C

- 58) The current yield on a \$10,000, 5 percent coupon bond selling for \$9,000 is
A) 5.0 percent. B) 5.5 percent. C) 7.5 percent. D) 8.0 percent.

Answer: B

- 59) The current yield on a \$10,000, 5 percent coupon bond selling for \$8,000 is
A) 5 percent. B) 6 percent. C) 7 percent. D) 8 percent.

Answer: B

- 60) The current yield on a \$10,000, 5 percent coupon bond selling for \$5,000 is
A) 5.0 percent. B) 7.5 percent. C) 10.0 percent. D) 12.5 percent.

Answer: C

- 61) The yield on a discount basis of a 90-day \$1,000 Treasury bill selling for \$900 is
A) 10 percent. B) 20 percent. C) 25 percent. D) 40 percent.

Answer: D

- 62) The yield on a discount basis of a 180-day \$1,000 Treasury bill selling for \$900 is
A) 10 percent. B) 20 percent. C) 25 percent. D) 40 percent.

Answer: B

- 63) The yield on a discount basis of a 180-day \$1,000 Treasury bill selling for \$950 is
A) 10 percent. B) 20 percent. C) 25 percent. D) 40 percent.

Answer: A

- 64) The return on a 10 percent coupon bond that initially sells for \$1,000 and sells for \$1,200 next year is
A) 15 percent. B) 25 percent. C) 30 percent. D) 33 percent.

Answer: C

- 65) The return on a 10 percent coupon bond that initially sells for \$1,000 and sells for \$1,100 next year is
A) 17 percent. B) 20 percent. C) 24 percent. D) 30 percent.

Answer: B

- 66) The return on a 10 percent coupon bond that initially sells for \$1,000 and sells for \$950 next year is
A) -10 percent. B) -5 percent. C) 0 percent. D) 5 percent.

Answer: D

- 67) The return on a 5 percent coupon bond that initially sells for \$1,000 and sells for \$950 next year is
A) -10 percent. B) -5 percent. C) 0 percent. D) 5 percent.

Answer: C

- 68) 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) 2 percent. D) 12 percent.

Answer: C

- 69) 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: A

- 70) If you expect the inflation rate to be 4 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) -3 percent. B) -2 percent. C) 3 percent. D) 7 percent.

Answer: C

- 71) Which of the following are true of simple loans?

- A) A simple loan requires the borrower to repay the principal and interest at the maturity date.
- B) Commercial loans to businesses are often of this type.
- C) The borrower repays the loan by making the same payment every month.
- D) Both (a) and (b) of the above.
- E) Both (b) and (c) of the above.

Answer: D

72) Which of the following are true of simple loans?

- A) A simple loan requires the borrower to repay the principal and interest at the maturity date.
- B) Installment loans and mortgages are frequently of the fixed payment type.
- C) The borrower repays the loan by making the same payment every month.
- D) Both (a) and (b) of the above.
- E) Both (b) and (c) of the above.

Answer: A

73) Which of the following are true of fixed payment loans?

- A) The borrower repays both the principal and interest at the maturity date.
- B) Installment loans and mortgages are frequently of the fixed payment type.
- C) The borrower repays the loan by making the same payment every month.
- D) Both (a) and (b) of the above.
- E) Both (b) and (c) of the above.

Answer: E

74) Which of the following are true of coupon bonds?

- A) The owner of a coupon bond receives a fixed interest payment every year until the maturity date, when the face or par value is repaid.
- B) U.S. Treasury bonds and notes are examples of coupon bonds.
- C) Corporate bonds are examples of coupon bonds.
- D) All of the above.
- E) Only (a) and (b) of the above.

Answer: D

75) A coupon bond is identifiable in which of the following ways?

- A) The issuing government agency or firm.
- B) The maturity date of the bond.
- C) The bond's coupon rate.
- D) All of the above.
- E) Only (b) and (c) of the above.

Answer: D

76) A coupon bond is identifiable in which of the following ways?

- A) The issuing government agency or firm.
- B) The maturity date of the bond.
- C) The bond's yield to maturity.
- D) All of the above.
- E) Only (a) and (b) of the above.

Answer: E

77) Which of the following are true for discount bonds?

- A) A discount bond is bought at a price below its face value.
- B) The purchaser receives the face value of the bond at the maturity date.
- C) U.S. Treasury bills, U.S. savings bonds, and so-called zero-coupon bonds are examples of discount bonds.
- D) All of the above.
- E) Only (a) and (b) of the above.

Answer: D

78) Which of the following are true for discount bonds?

- A) A discount bond is bought at a price below its face value.
- B) The purchaser receives the face value of the bond at the maturity date.
- C) U.S. Treasury bonds and notes are examples of discount bonds.
- D) All of the Above.
- E) Only (a) and (b) of the above.

Answer: E

79) Which of the following are true for discount bonds?

- A) A discount bond is bought at par.
- B) The purchaser receives the face value of the bond at the maturity date.
- C) U.S. Treasury bonds and notes are examples of discount bonds.
- D) Only (a) and (b) of the above.

Answer: B

80) Examples of discount bonds include:

- A) U.S. Treasury bonds and notes.
- B) U.S. savings bonds.
- C) so-called zero-coupon bonds.
- D) all of the above.
- E) Only (b) and (c) of the above.

Answer: E

81) The concept of _____ is based on the common-sense notion that a dollar paid to you in the future is less valuable to you than a dollar today.

- A) present value
- B) future value
- C) interest
- D) deflation

Answer: A

82) The process of calculating what dollars received in the future are worth today is called

- A) calculating the yield to maturity.
- B) discounting the future.
- C) deflating the future.
- D) none of the above.

Answer: B

- 83) The interest rate that equates the present value of payments received from a debt instrument with its value today is the
- A) simple interest rate.
 - B) discount rate.
 - C) yield to maturity.
 - D) real interest rate.

Answer: C

- 84) Economists consider the _____ to be the most accurate measure of interest rates.
- A) simple interest rate.
 - B) discount rate.
 - C) yield to maturity.
 - D) real interest rate.

Answer: C

- 85) For a simple loan, the simple interest rate equals the
- A) real interest rate.
 - B) nominal interest rate.
 - C) current yield.
 - D) yield to maturity.

Answer: D

- 86) Which of the following are true for a coupon bond?
- A) When the coupon bond is priced at its face value, the yield to maturity equals the coupon rate.
 - B) The price of a coupon bond and the yield to maturity are negatively related.
 - C) The yield to maturity is greater than the coupon rate when the bond price is below the par value.
 - D) All of the above are true.
 - E) Only (a) and (b) of the above are true.

Answer: D

- 87) Which of the following are true for a coupon bond?
- A) When the coupon bond is priced at its face value, the yield to maturity equals the coupon rate.
 - B) The price of a coupon bond and the yield to maturity are negatively related.
 - C) The yield to maturity is greater than the coupon rate when the bond price is above the par value.
 - D) All of the above are true.
 - E) Only (a) and (b) of the above are true.

Answer: E

- 88) Which of the following are true for a coupon bond?
- A) When the coupon bond is priced at its face value, the yield to maturity equals the coupon rate.
 - B) The price of a coupon bond and the yield to maturity are positively related.
 - C) The yield to maturity is greater than the coupon rate when the bond price is above the par value.
 - D) All of the above are true.
 - E) Only (a) and (b) of the above are true.

Answer: A

89) 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.

Answer: D

90) 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 shorter 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.

Answer: E

91) 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 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.

Answer: E

92) 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.

Answer: A

93) 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.

Answer: E

- 94) 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.

Answer: E

- 95) 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.

Answer: E

- 96) 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 purchase price of the security, rather than the percentage gain on the face value 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.

Answer: B

- 97) Which of the following are true concerning the distinction between interest rates and return?
- A) The rate of return on a bond will not necessarily equal the interest rate on that bond.
 - B) The return can be expressed as the sum of the current yield and the rate of capital gains.
 - C) The rate of return will be greater than the interest rate when the price of the bond rises between time t and time $t+1$.
 - D) All of the above are true.
 - E) Only (a) and (b) of the above are true.

Answer: D

- 98) Which of the following are true concerning the distinction between interest rates and return?
- A) The rate of return on a bond will not necessarily equal the interest rate on that bond.
 - B) The return can be expressed as the difference between the current yield and the rate of capital gains.
 - C) The rate of return will be greater than the interest rate when the price of the bond falls between time t and time $t+1$.
 - D) All of the above are true.
 - E) Only (a) and (b) of the above are true.

Answer: A

- 99) Which of the following are true concerning the distinction between interest rates and return?
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 - B) The return can be expressed as the sum of the current yield and the rate of capital gains.
 - C) The rate of return will be greater than the interest rate when the price of the bond falls between time t and time $t+1$.
 - D) All of the above are true.
 - E) Only (a) and (b) of the above are true.

Answer: E

- 100) Which of the following are generally true of all bonds?
- A) The only bond whose return equals the initial yield to maturity is one whose time to maturity is the same as the holding period.
 - B) A rise in interest rates is associated with a fall in bond prices, resulting in capital losses on bonds whose term to maturities are longer than the holding period.
 - C) The longer a bond's maturity, the greater is the size of the price change associated with an interest rate change.
 - D) All of the above are true.
 - E) Only (a) and (b) of the above are true.

Answer: D

- 101) Which of the following are generally true of all bonds?
- A) The only bond whose return equals the initial yield to maturity is one whose time to maturity is the same as the holding period.
 - B) A rise in interest rates is associated with a fall in bond prices, resulting in capital losses on bonds whose term to maturities are longer than the holding period.
 - C) The longer a bond's maturity, the smaller is the size of the price change associated with an interest rate change.
 - D) All of the above are true.
 - E) Only (a) and (b) of the above are true.

Answer: E

102) Which of the following are generally true of all bonds?

- A) The only bond whose return equals the initial yield to maturity is one whose time to maturity is the same as the holding period.
- B) A rise in interest rates is associated with a fall in bond prices, resulting in capital gains on bonds whose term to maturities are longer than the holding period.
- C) The longer a bond's maturity, the smaller is the size of the price change associated with an interest rate change.
- D) All of the above are true.
- E) Only (a) and (b) of the above are true.

Answer: A

103) Which of the following are generally true of all bonds?

- A) The longer a bond's maturity, the lower is the rate of return that occurs as a result of the increase in the interest rate.
- B) Even though a bond has a substantial initial interest rate, its return can turn out to be negative if interest rates rise.
- C) Prices and returns for long term bonds are more volatile than those for shorter term bonds.
- D) All of the above are true.
- E) Only (a) and (b) of the above are true.

Answer: D

104) Which of the following are generally true of all bonds?

- A) The longer a bond's maturity, the greater is the rate of return that occurs as a result of the increase in the interest rate.
- B) Even though a bond has a substantial initial interest rate, its return can turn out to be negative if interest rates rise.
- C) Prices and returns for short term bonds are more volatile than those for longer term bonds.
- D) All of the above are true.
- E) Only (a) and (b) of the above are true.

Answer: B

105) Which of the following are generally true of all bonds?

- A) The longer a bond's maturity, the lower is the rate of return that occurs as a result of the increase in the interest rate.
- B) Even though a bond has a substantial initial interest rate, its return can turn out to be negative if interest rates rise.
- C) Prices and returns for short term bonds are more volatile than those for longer term bonds.
- D) All of the above are true.
- E) Only (a) and (b) of the above are true.

Answer: E

106) The _____ states that the nominal interest rate equals the real interest rate plus the expected rate of inflation.

A) Fisher equation.

B) Keynesian equation.

C) Monetarist equation.

D) Marshall equation.

Answer: A

107) The Fisher equation states that

A) the nominal interest rate equals the real interest rate plus the expected rate of inflation.

B) the real interest rate equals the nominal interest rate plus the expected rate of inflation.

C) the nominal interest rate equals the real interest rate less the expected rate of inflation.

D) both (a) and (b) of the above are true.

E) both (a) and (c) of the above are true.

Answer: A

Answer Key
Testname: CH4

- 1) B
- 2) C
- 3) A
- 4) A
- 5) E
- 6) B
- 7) C
- 8) D
- 9) B
- 10) A
- 11) E
- 12) C
- 13) D
- 14) A
- 15) D
- 16) A
- 17) C
- 18) C
- 19) E
- 20) D
- 21) A
- 22) D
- 23) B
- 24) D
- 25) B
- 26) D
- 27) A
- 28) B
- 29) C
- 30) D
- 31) D
- 32) C
- 33) D
- 34) D
- 35) E
- 36) A
- 37) C
- 38) B
- 39) C
- 40) D
- 41) C
- 42) B
- 43) C
- 44) D
- 45) C
- 46) D
- 47) C
- 48) C
- 49) B
- 50) A
- 51) B
- 52) C
- 53) C
- 54) D
- 55) D
- 56) B
- 57) C
- 58) B

Answer Key
Testname: CH4

- 59) B
- 60) C
- 61) D
- 62) B
- 63) A
- 64) C
- 65) B
- 66) D
- 67) C
- 68) C
- 69) A
- 70) C
- 71) D
- 72) A
- 73) E
- 74) D
- 75) D
- 76) E
- 77) D
- 78) E
- 79) B
- 80) E
- 81) A
- 82) B
- 83) C
- 84) C
- 85) D
- 86) D
- 87) E
- 88) A
- 89) D
- 90) E
- 91) E
- 92) A
- 93) E
- 94) E
- 95) E
- 96) B
- 97) D
- 98) A
- 99) E
- 100) D
- 101) E
- 102) A
- 103) D
- 104) B
- 105) E
- 106) A
- 107) A