1) The *intrinsic* price of a financial security is the present value of its expected future cash flows discounted at a relevant risk-adjusted discount rate.

2) The U.S. Treasury is *NOT* a net supplier of funds to financial markets.


4) A *zero coupon bond* IS a discount bond.

5) Should interest rates rise, zero-coupon bonds WILL DECLINE in price at a greater rate than coupon bonds.

6) The lowest maturity zero coupon bond IS a Treasury-Bill.

7) A bond’s YTM IS THE unique rate of return equal to the DR that makes the net present value of the bond’s cash flows equal to zero.

8) LIBOR is *NOT* the rate used to discount Eurobonds.

9) A rising TED spread DOES indicate shrinking liquidity.

10) Inflation is a SUSTAINED increase in THE GENERAL LEVEL of prices.

11) Mortgage rates on Jumbo loans ARE higher than rates are smaller loans.

12) Thirty-year mortgages rates ARE higher than fifteen year mortgage rates.

13) The monthly payment on a 5 year 5% loan of $18,000 WOULD BE MORE than $300. This was mis-marked.

14) A 5-year 10 percent coupon bond priced to yield 5% WOULD BE a premium bond.
15) A 10-year 5 percent coupon bond priced to yield 10% **WOULD BE** a discount bond.

Consider a **Coupon Bond selling at a discount to Par** and the relationship between the following: its coupon rate, its current yield (which = coupon/price), and its YTM. **Use the following as your response to the next six questions** (with replacement and non-exhaustive):

(a) Greater than  (b) No difference  (c) Less than

16) Yield-to-Maturity **GREATER THAN** Current Yield.

17) Same as above.

18) Current Yield **GREATER THAN** Coupon Rate.

19) Same as above.

20) Coupon Rate **LESS THAN versus** Yield-to-Maturity.

21) Same as above.

**Multiple Choice Questions**

22) The company that recently issued junk bonds:
   (a) Viacom  (b) Ali Baba Express  
   **(c) Dell**  (d) Barclays Bank

23) Not one of the four steps in the investment process: **NONE OF THE ABOVE**
   (a) asset allocation  (b) risk tolerance  
   (c) management style  (d) security selection

24) The most reported security index **(IS THE DOW 30): NONE OF THE ABOVE**
   (a) NIKKEI  (b) DAX  
   (c) Hang Seng  (d) S & P

25) The mildest of the past seven U.S. economic recessions: **This was mis-marked.**
   (a) 12/69 to 11/70  (b) 1/80 to 7/80  
   (c) 7/81 to 11/82  **(d) 3/01 to 11/01**

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26) The daily compounding APY on an APR = 10 percent is closest to:
   (a) 10.25%  (b) 10.47%  (c) **10.51%**  (d) 10.72%

27) The semi-annual compounding APY on an APR of 10% is closest to:
   **(a) 10.25%**  (b) 10.47%  (c) 10.51%  (d) 10.72%

28) **Not a commonly quoted bond yield:**
   (a) YTM    (b) RCYTM    (c) CY    (d) **CAGR**

29) The DJIA started 2011 at 9,686 and ended June 30, 2015 at 18,272. What is the CAGR for this is closest to:
   (a) 12.23%  (b) 13.53%  (c) **15.16%**  (d) 17.20%

30) Over the last five years, the U.S. Treasury Yield Curve has moved (choose the best of) generally ________:
   (a) higher and flattened.  (b) higher and steepened.
   (c) lower and steepened.  (d) **lower and flattened.**

31) The Prime Rate this week is closest to: **NONE OF THE ABOVE**
   (a) 2.5%  (b) 2.75%  (c) 3.0%  (d) 3.25%  (e) 3.5%

32) The **Benchmark** yield this week is closest to:
   (a) 1.00%  (b) 1.25%  (c) **1.50%**  (d) 1.75%  (e) 2.00%

33) The Fed Funds Target has recently been closest to: **NONE OF THE ABOVE because it is a range.**
   (a) 0  (b) 25 bps  (c) 50 bps  (d) 75 bps

34) **Not a function of capital markets:**
   (a) Economic intermediary  (b) Continuous Pricing
   (c) Fair Pricing  (d) **Price regulation**

35) Lowest G-7 yield on benchmark sovereign debt:
   (a) France  (b) U.S.A.
   (c) Germany  (d) **Japan**
36) If you bid $9,925 at a 90-day T-Bill auction, the AHPY you want is closest to:
   (a) 6.00%  (b) 3.00%  (c) 1.50%  (d) 75 bps  (e) 25 bps
37) If you bid $9,900 at a 180-day T-Bill auction. The yield you want is closest to:
   (a) 4.00%  (b) 2.00%  (c) 1.50%  (d) 1.00%  (e) 50 bps

Assume that you just purchased a newly issued:

- 5 year
- 10 percent annual coupon bond.
- Assume a flat yield curve.

38) If this bond is priced-to-yield 11%, then it price would be closest to:
   (a) $ 953  (b) $ 963  (c) $ 1,038  (d) $ 1,048
39) If this bond is priced-to-yield 9%, then it price would be closest to:
   (a) $ 953  (b) $ 963  (c) $ 1,038  (d) $ 1,048

40) If this bond were stripped and its Face sold to yield 10%, then its Face would be priced closest to:
   (a) $ 386  (b) $ 614  (c) $ 621  (d) $1,000
41) The stripped coupons, if priced to yield 10%, would be priced closest to:
   (a) $ 814  (b) $ 386  (c) $379  (d) $1,000

   If you purchased the above bond at Par and immediately interest rates rose 200 bps, but you hold the bond to term investing all coupons at the new APR:

42) Your RCYTM would be closest to:
   (a) 10.00%  (b) 10.13%  (c) 10.23%  (d) 10.33%

43) Same as above.

Assume a positively sloped Yield Curve with this Term Structure:

<table>
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<tr>
<th></th>
<th>1 year</th>
<th>2 years</th>
<th>3 years</th>
<th>4 years</th>
<th>5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4%</td>
<td>5%</td>
<td>6%</td>
<td>7%</td>
<td>8%</td>
</tr>
</tbody>
</table>

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44) The price of the above bond according to this term structure now closest to:
   (a) $900  (b) $1,000  (c) $1,100  (d) $1,200

45) The RCYTM of the above bond purchased at the upwardly-sloped yield curve is closest to:
   (a) 4.38%  (b) 5.38%  (c) 6.38%  (d) 7.38%

46) Assume that you purchase the bond at the (correct) price above and sold it immediately after you capture its first coupon. Your AHPR is closest to?
   (a) 7.38%  (b) 8.38%  (c) 9.38%  (d) 10.38%

47) Same as above.

48) The RCYTM for the investor who purchased the 4 year 10% coupon bond from you is closest to __________, assuming that the sloped yield curve remains stable.
   (a) 3.38%  (b) 4.38%  (c) 5.38%  (d) 6.38%

49) You win the California Lottery and 20 payments of $50,000 per year and the appropriate discount rate is 5 percent: The present cash value of your winning ticket is closest to:
   (a) $623,111  (b) $654,266  (c) $1,653,297  (d) $1,735,962

50) Same as above.