***Financial Markets and Institutions, 8e*** **(Mishkin)**
**Chapter 3 What Do Interest Rates Mean and What Is Their Role in Valuation?**

3.1 Multiple Choice

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) same-payment loan.
E) none of the above.
Answer: B
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

2) A coupon bond pays the owner of the bond
A) the same amount every month until the maturity date.
B) a fixed interest payment every period, plus the face value of the bond at the maturity date.
C) the face value of the bond plus an interest payment once the maturity date has been reached.
D) the face value at the maturity date.
E) none of the above.
Answer: B
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

3) A bond's future payments are called its
A) cash flows.
B) maturity values.
C) discounted present values.
D) yields to maturity.
Answer: A
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

4) 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
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

5) (I) A simple loan requires the borrower to repay the principal at the maturity date along with an interest payment.
(II) A discount bond is bought at a price below its face value, and the face value is repaid at the maturity date.
A) (I) is true, (II) false.
B) (I) is false, (II) true.
C) Both are true.
D) Both are false.
Answer: C
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

6) 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
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

7) 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
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

8) (I) A discount bond requires the borrower to repay the principal at the maturity date plus an interest payment.
(II) A coupon bond pays the lender a fixed interest payment every year until the maturity date, when a specified final amount (face or par value) is repaid.
A) (I) is true, (II) false.
B) (I) is false, (II) true.
C) Both are true.
D) Both are false.
Answer: B
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

9) 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
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

10) An $8,000 coupon bond with a $400 annual coupon payment has a coupon rate of
A) 5 percent.
B) 8 percent.
C) 10 percent.
D) 40 percent.
Answer: A
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

11) The concept of _____ is based on the 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
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

12) Dollars received in the future are worth _____ than dollars received today. The process of calculating what dollars received in the future are worth today is called _____.
A) more; discounting
B) less; discounting
C) more; inflating
D) less; inflating
Answer: B
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

13) 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) compounding the future.
D) compounding the present.
Answer: B
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

14) With an interest rate of 5 percent, the present value of $100 received one year from now is approximately
A) $100.
B) $105.
C) $95.
D) $90.
Answer: C
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

15) 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 approximately
A) $1,000.
B) $2,000.
C) $2,560.
D) $3,000.
Answer: B
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

16) With an interest rate of 8 percent, the present value of $100 received one year from now is approximately
A) $93.
B) $96.
C) $100.
D) $108.
Answer: A
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

17) With an interest rate of 6 percent, the present value of $100 received one year from now is approximately
A) $106.
B) $100.
C) $94.
D) $92.
Answer: C
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

18) The interest rate that equates the present value of the cash flow received from a debt instrument with its market price today is the
A) simple interest rate.
B) discount rate.
C) yield to maturity.
D) real interest rate.
Answer: C
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

19) The interest rate that financial 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
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

20) Financial 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
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

21) 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
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

22) 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
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

23) The yield to maturity of a one-year, simple loan of $500 that requires an interest payment of $40 is
A) 5 percent.
B) 8 percent.
C) 12 percent.
D) 12.5 percent.
Answer: B
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

24) The yield to maturity of a one-year, simple loan of $400 that requires an interest payment of $50 is
A) 5 percent.
B) 8 percent.
C) 12 percent.
D) 12.5 percent.
Answer: D
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

25) A $10,000, 8 percent coupon bond that sells for $10,000 has a yield to maturity of
A) 8 percent.
B) 10 percent.
C) 12 percent.
D) 14 percent.
Answer: A
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

26) A $10,000, 8 percent coupon bond that sells for $10,100 has a yield to maturity _____.
A) equal to 8 percent
B) greater than 8 percent
C) less than 8 perfect
D) that cannot be calculated
Answer: C
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: New Question

27) 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
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

28) 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
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

29) 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 7 percent coupon bond selling for $1,100
C) A 15 percent coupon bond selling for $1,000
D) A 15 percent coupon bond selling for $900
Answer: B
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: New Question

30) 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
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

31) 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
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

32) 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
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

33) A consol bond is a bond that
A) pays interest annually and its face value at maturity.
B) pays interest in perpetuity and never matures.
C) pays no interest but pays its face value at maturity.
D) rises in value as its yield to maturity rises.
Answer: B
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

34) The yield to maturity on a consol bond that pays $100 yearly and sells for $500 is
A) 5 percent.
B) 10 percent.
C) 12.5 percent.
D) 20 percent.
E) 25 percent.
Answer: D
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

35) The yield to maturity on a consol bond that pays $200 yearly and sells for $1000 is
A) 5 percent.
B) 10 percent.
C) 20 percent.
D) 25 percent.
Answer: C
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

36) A frequently used approximation for the yield to maturity on a long-term bond is the
A) coupon rate.
B) current yield.
C) cash flow interest rate.
D) real interest rate.
Answer: B
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

37) The current yield on a coupon bond is the bond's _____ divided by its _____.
A) annual coupon payment; price
B) annual coupon payment; face value
C) annual return; price
D) annual return; face value
Answer: A
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

38) When a bond's price falls, its yield to maturity _____ and its current yield _____.
A) falls; falls
B) rises; rises
C) falls; rises
D) rises; falls
Answer: B
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

39) 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
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

40) 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
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

41) If a $10,000 face value discount bond maturing in one year is selling for $9,000, then its yield to maturity is approximately
A) 9 percent.
B) 10 percent.
C) 11 percent.
D) 12 percent.
Answer: C
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

42) 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
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

43) 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
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

44) 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 less 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: D
Topic: Chapter 3.2 Distinction Between Real and Nominal Interest Rates
Question Status: Previous Edition

45) 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
Topic: Chapter 3.2 Distinction Between Real and Nominal Interest Rates
Question Status: Previous Edition

46) 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
Topic: Chapter 3.2 Distinction Between Real and Nominal Interest Rates
Question Status: Previous Edition

47) 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 the nominal interest rate.
C) is a more accurate indicator of the tightness of credit market conditions than the nominal interest rate.
D) all of the above.
E) only A and B of the above.
Answer: D
Topic: Chapter 3.2 Distinction Between Real and Nominal Interest Rates
Question Status: Previous Edition

48) The nominal interest rate minus the expected rate of inflation
A) defines the real interest rate.
B) is a less accurate measure of the incentives to borrow and lend than is the nominal interest rate.
C) is a less accurate indicator of the tightness of credit market conditions than is the nominal interest rate.
D) defines the discount rate.
Answer: A
Topic: Chapter 3.2 Distinction Between Real and Nominal Interest Rates
Question Status: Previous Edition

49) 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
Topic: Chapter 3.2 Distinction Between Real and Nominal Interest Rates
Question Status: Previous Edition

50) 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
Topic: Chapter 3.2 Distinction Between Real and Nominal Interest Rates
Question Status: Previous Edition

51) What is the return on a 5 percent coupon bond that initially sells for $1,000 and sells for $1,200 one year later?
A) 5 percent
B) 10 percent
C) -5 percent
D) 25 percent
E) None of the above
Answer: D
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

52) What is the return on a 5 percent coupon bond that initially sells for $1,000 and sells for $900 one year later?
A) 5 percent
B) 10 percent
C) -5 percent
D) -10 percent
E) None of the above
Answer: C
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

53) The return on a 5 percent coupon bond that initially sells for $1,000 and sells for $1,100 one year later is
A) 5 percent.
B) 10 percent.
C) 14 percent.
D) 15 percent.
Answer: D
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

54) The return on a 10 percent coupon bond that initially sells for $1,000 and sells for $900 one year later is
A) -10 percent.
B) -5 percent.
C) 0 percent.
D) 5 percent.
Answer: C
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

55) 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 price change associated with a given interest rate change.
D) All of the above are true.
E) Only A and B of the above are true.
Answer: D
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

56) 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 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
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

57) 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
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

58) Suppose you are holding a 5 percent coupon bond maturing in one year with a yield to maturity of 15 percent. If the interest rate on one-year bonds rises from 15 percent to 20 percent over the course of the year, what is the yearly return on the bond you are holding?
A) 5 percent
B) 10 percent
C) 15 percent
D) 20 percent
Answer: C
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

59) (I) Prices of longer-maturity bonds respond more dramatically to changes in interest rates.
(II) Prices and returns for long-term bonds are less volatile than those for short-term bonds.
A) (I) is true, (II) false.
B) (I) is false, (II) true.
C) Both are true.
D) Both are false.
Answer: A
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

60) (I) Prices of longer-maturity bonds respond less dramatically to changes in interest rates.
(II) Prices and returns for long-term bonds are less volatile than those for shorter-term bonds.
A) (I) is true, (II) false.
B) (I) is false, (II) true.
C) Both are true.
D) Both are false.
Answer: D
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

61) The riskiness of an asset's return that results from interest rate changes is called
A) interest-rate risk.
B) coupon-rate risk.
C) reinvestment risk.
D) yield-to-maturity risk.
Answer: A
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

62) If an investor's holding period is longer than the term to maturity of a bond, he or she is exposed to
A) interest-rate risk.
B) reinvestment risk.
C) bond-market risk.
D) yield-to-maturity risk.
Answer: B
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

63) Reinvestment risk is the risk that
A) a bond's value may fall in the future.
B) a bond's future coupon payments may have to be invested at a rate lower than the bond's yield to maturity.
C) an investor's holding period will be short and equal in length to the maturity of the bonds he or she holds.
D) a bond's issuer may fail to make the future coupon payments and the investor will have no cash to reinvest.
Answer: B
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

64) (I) The average lifetime of a debt security's stream of payments is called duration.
(II) The duration of a portfolio is the weighted average of the durations of the individual securities, with the weights reflecting the proportion of the portfolio invested in each.
A) (I) is true, (II) false.
B) (I) is false, (II) true.
C) Both are true.
D) Both are false.
Answer: C
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

65) The duration of a ten-year, 10 percent coupon bond when the interest rate is 10 percent is 6.76 years. What happens to the price of the bond if the interest rate falls to 8 percent?
A) It rises 20 percent.
B) It rises 12.3 percent.
C) It falls 20 percent.
D) It falls 12.3 percent.
Answer: B
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

66) When the lender provides the borrower with an amount of funds that must be repaid to the lender at the maturity date, along with an additional payment for the interest, it is called a _____.
A) fixed-payment loan
B) discount loan
C) simple loan
D) none of the above
Answer: C
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

67) A discount bond
A) is also called a coupon bond.
B) is also called a zero-coupon bond.
C) is also called a fixed-payment bond.
D) is also called a corporate bond.
Answer: B
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

68) The interest rate that is adjusted for actual changes in the price level is called the
A) ex post real interest rate.
B) expected interest rate.
C) ex ante real interest rate.
D) none of the above.
Answer: A
Topic: Chapter 3.2 Distinction Between Real and Nominal Interest Rates
Question Status: Previous Edition

69) The change in the bond's price relative to the initial purchase price is
A) the current yield.
B) coupon payment.
C) yield to maturity.
D) rate of capital gain.
Answer: D
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

70) The return on a bond is equal to the yield to maturity when
A) the holding period is longer than the maturity of the bond.
B) the maturity of the bond is longer than the holding period.
C) the holding period and the maturity of the bond are identical.
D) none of the above.
Answer: C
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

71) Bonds whose term to maturity is shorter than the holding period are also subject to
A) default.
B) reinvestment risk.
C) both of the above.
D) none of the above.
Answer: B
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

72) A _____ is a type of loan that has the same cash flow payment every year throughout the life of the loan.
A) discount loan
B) simple loan
C) fixed-payment loan
D) interest-free loan
Answer: C
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

73) The real interest rate is actually the *ex ante real interest rate* because it is adjusted for _____ changes in the price level.
A) actual
B) expected
C) nominal
D) real
Answer: B
Topic: Chapter 3.2 Distinction Between Real and Nominal Interest Rates
Question Status: New Question

74) An *ex post real interest rate* is adjusted for _____ changes in the price level.
A) actual
B) expected
C) nominal
D) real
Answer: A
Topic: Chapter 3.2 Distinction Between Real and Nominal Interest Rates
Question Status: New Question

3.2 True/False

1) A bond's current market value is equal to the present value of the coupon payments plus the present value of the face amount.
Answer: TRUE
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

2) Discounting the future is the procedure used to find the future value of a dollar received today.
Answer: FALSE
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

3) The current yield is the best measure of an investor's return from holding a bond.
Answer: FALSE
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

4) Unless a bond defaults, an investor cannot lose money investing in bonds.
Answer: FALSE
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

5) The current yield is the yearly coupon payment divided by the current market price.
Answer: TRUE
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

6) Prices for long-term bonds are more volatile than for shorter-term bonds.
Answer: TRUE
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

7) A long-term bond's price is less affected by interest rate movements than a short-term bond's price.
Answer: FALSE
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

8) Increasing duration implies that interest-rate risk has increased.
Answer: TRUE
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

9) All else being equal, the greater the interest rate the greater the duration is.
Answer: FALSE
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

10) Interest-rate risk is the uncertainty that an investor faces because the interest rate at which a bond's future coupon payments can be invested is unknown.
Answer: FALSE
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

11) The real interest rate is equal to the nominal rate minus inflation.
Answer: TRUE
Topic: Chapter 3.2 Distinction Between Real and Nominal Interest Rates
Question Status: Previous Edition

12) The current yield goes up as the price of a bond falls.
Answer: TRUE
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

13) Changes in interest rates make investments in long-term bonds risky.
Answer: TRUE
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

14) Bonds with a maturity that is longer than the holding period have no interest-rate risk.
Answer: FALSE
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

15) A bonds with a 5% coupon as has a yield to maturity of 5%.
Answer: FALSE
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: New Question

16) The real interest rate is actually the *ex ante real interest rate* because it is adjusted for actual changes in the price level.
Answer: FALSE
Topic: Chapter 3.2 Distinction Between Real and Nominal Interest Rates
Question Status: New Question

17) When the real interest rate is low, there are greater incentives to borrow and fewer incentives to lend.
Answer: TRUE
Topic: Chapter 3.2 Distinction Between Real and Nominal Interest Rates
Question Status: New Question

18) When the real interest rate is high, there are greater incentives to borrow and fewer incentives to lend.
Answer: FALSE
Topic: Chapter 3.2 Distinction Between Real and Nominal Interest Rates
Question Status: New Question

19) An indexed bond is a bonds whose interest and/or principal payments are adjusted for changes in the price level.
Answer: TRUE
Topic: Chapter 3.2 Distinction Between Real and Nominal Interest Rates
Question Status: New Question

3.3 Essay

1) Distinguish between coupon rate, yield to maturity, and current yield.
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

2) Describe the cash flows received from owning a coupon bond.
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

3) What concept is used to value a bond?
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

4) How is a bond's current yield calculated? Why is current yield a more accurate approximation of yield to maturity for a long-term bond than for a short-term bond?
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

5) Why are long-term bonds more risky than short-term bonds?
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

6) What is interest-rate risk and how is it measured?
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

7) Why may a bond's rate of return differ from its yield to maturity?
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

8) How does reinvestment risk differ from interest-rate risk?
Topic: Chapter 3.3 Distinction Between Interest Rates and Returns
Question Status: Previous Edition

9) What is the distinction between the nominal interest rate and the real interest rate? Which is a better indicator of incentives to borrow and lend? Why?
Topic: Chapter 3.2 Distinction Between Real and Nominal Interest Rates
Question Status: Previous Edition

10) Describe how Treasury Inflation Protection Securities (TIPS) work and how they help policymakers estimate expected inflation.
Topic: Chapter 3.2 Distinction Between Real and Nominal Interest Rates
Question Status: Previous Edition

11) What is the purpose of discounting cash flows?
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: Previous Edition

12) What is the relationship between the current yield and yield to maturity for a bond?
Topic: Chapter 3.1 Measuring Interest Rates
Question Status: New Question

13) What happened in Japan in the late-1990s to generate negative rates on the government debt?
Topic: Chapter 3.2 Distinction Between Real and Nominal Interest Rates
Question Status: New Question