

1. An analyst wants to estimate the value of a callable bond's embedded call option. What is the most direct way to establish this value?

- a. Compare the price of the callable bond with the price of an otherwise identical non-callable bond from the same issuer
- b. Compare the bond's coupon rate with the prevailing market interest rate at the time of valuation
- c. Compare the bond's price with that of a sovereign bond of equivalent credit rating

2. An investor holding a callable bond is subject to a risk that does not affect holders of otherwise identical non-callable bonds. What is the nature of this risk?

- a. Higher credit risk, because the call option exposes the issuer to a higher probability of default
- b. Reinvestment risk, because the bond is most likely to be called when market rates have fallen, forcing reinvestment at lower yields
- c. Currency risk, because callable bonds are typically denominated in foreign currencies

3. An investor holds a puttable bond. Under what market condition is the investor most likely to exercise the put option?

- a. When interest rates have fallen substantially, raising the bond's market price above par
- b. When the issuer's credit quality has improved, making the bond more attractive to hold
- c. When interest rates have risen substantially since issuance, allowing reinvestment of the put proceeds at higher market yields

4. A growth-stage company has limited current cash flow but expects strong future share price appreciation. Why might convertible bonds be a particularly attractive financing instrument for this company?

- a. Investors accept a substantially lower yield-to-maturity in exchange for the conversion option, reducing the company's interest burden
- b. Convertible bonds carry no credit risk because the issuer can always force conversion to equity
- c. Convertible bonds exempt the issuer from making any interest payments until the conversion date

5. What is the principal practical effect of the call protection period for the investor in a callable bond?

- a. It eliminates call risk entirely for the life of the bond
- b. It guarantees a minimum period during which the investor will receive coupon income before the bond can be called
- c. It allows the investor to call the bond back to the issuer during the protection period

6. Sukuk make no interest payments yet are classified as fixed-income instruments. What feature of sukuk justifies this classification?

- a. They are exclusively issued by sovereign governments, which automatically classifies them as fixed-income
- b. They are convertible into other fixed-income securities at maturity, ensuring debt-like cash flows
- c. Investors receive periodic, predictable rental cash flows from underlying assets in which they hold an ownership claim

7. A bond denominated in US dollars is issued by a French corporation, underwritten by a syndicate of banks from the UK, Switzerland, and Singapore, and sold primarily to investors in Asia and the Middle East. The bond is not registered with any single country's securities regulator. What is the correct classification of this bond?

- a. A Eurobond
- b. A foreign bond
- c. A global bond

8. A multilateral organisation regularly issues bonds simultaneously in the Eurobond market and in the US domestic bond market. What is the primary benefit of this dual-market approach?

- a. It allows the issuer to charge different coupon rates in different markets
- b. It ensures sufficient demand and access to fixed-income investors regardless of their location
- c. It exempts the issuer from registration requirements in both markets

9. A bond is issued with both an embedded conversion provision and a separately attached warrant. The investor wishes to monetise one of these rights without selling the bond itself. Which right can the investor sell independently of the bond?

- a. The warrant — it is an attached option, separately tradable on financial exchanges
- b. The conversion provision — its established secondary market makes it freely separable
- c. Both rights — the option-like nature of each makes them tradable independently of the bond

10. A European bank issues a contingent convertible bond. Under what circumstance does this bond automatically convert from debt to equity?

- a. When the bank's share price rises above a specified threshold
- b. When the bank's core regulatory capital ratio falls below a specified minimum
- c. When the bank's bond yield falls below the issuance coupon

11. A convertible bond has a par value of USD 1,000 and a conversion price of USD 50 per share. What is the bond's conversion ratio?

- a. 50 shares
- b. 1,000 shares
- c. 20 shares

12. A convertible bond has a conversion ratio of 25 shares per bond unit. The issuer's current share price is USD 32 per share. What is the bond's conversion value?

- a. USD 800
- b. USD 32
- c. USD 25

13. A callable bond's yield-to-maturity has fallen significantly below its coupon rate. Compared with an otherwise identical non-callable bond, how does the callable bond's price behave as yields fall further?

- a. Price rises more sharply than the non-callable bond
- b. Price falls because the call feature becomes more valuable
- c. Price appreciation is effectively capped near the fixed call price

14. A puttable bond's yield-to-maturity has risen significantly above its coupon rate. Compared with an otherwise identical non-puttable bond, how does the puttable bond's price behave as yields rise further?

- a. The put price serves as a floor below which the price will not fall
- b. Price falls more sharply than the non-puttable bond
- c. The price is unaffected by changes in yield

15. A zero-coupon bond with par value USD 10,000,000 is issued at a price of USD 89 per USD 100 of par. What is the original issue discount, and how is it treated under a US-style tax regime?

- a. USD 8,900,000 — recognised as capital gain only at maturity
- b. USD 1,100,000 — deferred entirely until maturity, when recognised as capital gain
- c. USD 1,100,000 — recognised prorated as ordinary income each year, with no capital gains tax at maturity

16. A bond is denominated in US dollars but issued and traded outside the United States. Which factor has the strongest effect on this bond's price?

- a. The market interest rates associated with the US dollar
- b. The jurisdiction where the bond is issued and traded
- c. The credit rating of the country where the bond is traded

17. Eurobonds in the past were typically issued as bearer bonds. What is the distinguishing feature of a bearer bond compared with a registered bond?

- a. Bearer bonds pay no interest; registered bonds pay coupons
- b. Bearer bonds are not recorded by name or serial number; registered bonds have ownership recorded
- c. Bearer bonds are exempt from all taxation; registered bonds are taxed normally