

1. A national government issues a fixed income security with a maturity of six months at issuance. How is this instrument classified?

- a. A money market security
- b. A capital market security
- c. A perpetual bond

2. Which of the following is the most likely issuer of bonds carrying the lowest credit risk in a given region?

- a. A large investment-grade corporation
- b. A national (sovereign) government
- c. A special purpose entity issuing asset-backed securities

3. A 4% coupon bond has a par value of GBP 50,000 and pays interest quarterly. What is the periodic coupon payment?

- a. GBP 2,000
- b. GBP 1,000
- c. GBP 500

4. A floating-rate note pays quarterly interest equal to the three-month market reference rate plus 150 basis points. If the three-month market reference rate is 1.00%, what is the annualised coupon rate?

- a. 1.00%
- b. 2.50%
- c. 1.50%

5. What does a downward-sloping yield curve indicate for a given issuer?

- a. Yields-to-maturity on longer-term bonds are higher than yields-to-maturity on shorter-term bonds
- b. Yields-to-maturity are identical at every maturity for that issuer
- c. Yields-to-maturity on longer-term bonds are lower than yields-to-maturity on shorter-term bonds

6. What is the key distinction between senior debt and subordinated debt?

- a. Senior debt has priority over subordinated debt in bankruptcy or liquidation
- b. Senior debt always carries a higher coupon to compensate investors for priority
- c. Subordinated debt is always secured by specific collateral

7. How is a zero-coupon bond's return generated for the investor holding the security to its maturity?

- a. Through periodic coupon payments matching prevailing market rates
- b. Through a guaranteed annual cash distribution paid quarterly
- c. Through the difference between the discounted issue price and the par value received at maturity

8. On a floating-rate note, the issuer-specific spread is added to the market reference rate to determine the coupon. What is the general relationship between the issuer's credit quality and the spread?

- a. Higher credit quality is associated with a lower spread
- b. Higher credit quality is associated with a higher spread
- c. The spread is independent of credit quality and depends only on the market reference rate

9. A company's bond and a comparable sovereign bond have the same maturity. The corporate bond yields 4.20% and the sovereign bond yields 3.30%. What does the 90 basis point yield difference primarily reflect?

- a. A premium investors pay for the higher liquidity of the corporate bond
- b. Compensation demanded by investors for the additional credit risk of the corporate bond
- c. Compensation for the longer duration of the corporate bond relative to the sovereign

10. A EUR 5 million floating-rate note pays quarterly interest equal to the three-month market reference rate plus 200 basis points. The three-month market reference rate is currently -0.25%. What is the quarterly interest payment?

- a. EUR 21,875
- b. EUR 87,500
- c. EUR -3,125

11. A USD 1,000,000 floating-rate note pays semiannual interest equal to the six-month market reference rate plus 90 basis points. The current six-month market reference rate is 4.20%. What is the semiannual interest payment?

- a. USD 51,000
- b. USD 25,500
- c. USD 42,000

12. An investor purchases a bond with a 5% coupon and par value USD 1,000 at a price of USD 1,025. One year later, with the coupon unchanged, the price has fallen to USD 985. By approximately how much has the current yield changed?

- a. Fallen by approximately 20 basis points
- b. Unchanged — current yield is determined by the coupon rate and par value alone
- c. Risen by approximately 20 basis points

13. Two bonds from the same corporate issuer have identical maturity, coupon, and currency. The only difference is that Bond A is senior unsecured and Bond B is subordinated. Which bond carries the higher yield-to-maturity, and why?

- a. Bond A — investors in the senior bond demand a premium for their preferred priority status
- b. Bond B — subordinated holders are repaid only after senior claims in bankruptcy, so they demand a higher yield as compensation for additional credit risk
- c. They carry the same yield-to-maturity — seniority affects recovery, not the probability of default

14. A company has six bonds outstanding from the same issuer, all with identical features apart from maturity. Their yields-to-maturity, plotted against time to maturity, rise as maturity lengthens. What is the most likely interpretation of this pattern?

- a. Investors demand higher expected returns to compensate for the higher risk of longer-maturity bonds
- b. The issuer's credit quality has deteriorated significantly over time
- c. Longer-maturity bonds always have higher coupons than shorter-maturity bonds