

1. An investor holding a floating-rate note observes that the coupon paid in the first interest period is 4.2%, but the coupon paid in the second period drops to 3.6%, even though the issuer's credit quality is unchanged. What most likely explains the change?

- a. The market reference rate fell by 60 basis points between the two reset dates
- b. The issuer's credit spread was reduced by 60 basis points at the second reset
- c. The note's principal amortised between the two reset dates, reducing the interest base

2. Two bonds from the same issuer with identical maturities are issued: Bond A is fixed-coupon and Bond B is a floating-rate note. Market interest rates rise sharply after issuance. Which statement best describes the relative price reaction?

- a. Bond B's price falls significantly more than Bond A's, because the floating-rate feature amplifies market sensitivity
- b. Bond A's price falls significantly more than Bond B's, because Bond B's coupon resets upward in line with prevailing rates
- c. Both bonds fall by approximately the same amount because they share an issuer and maturity

3. An issuer is planning a 7-year bond with a coupon structure designed to give investors confidence that they will be compensated more generously over time. The issuer wants the increase schedule to be fully known at issuance, not contingent on market rates or inflation. Which structure is most appropriate?

- a. A step-up bond, with predetermined coupon increases on specified dates
- b. A floating-rate note, with coupons resetting at market interest rates
- c. An interest-indexed inflation-linked bond, with coupons adjusting to inflation

4. A highly leveraged company wants to issue debt but is concerned about its near-term cash flow constraints. The company is willing to accept a higher coupon rate in exchange for flexibility in how that coupon is settled. What bond structure best meets these objectives?

- a. A floating-rate note, in which the coupon adjusts to prevailing market rates
- b. A capital-indexed bond, in which the principal adjusts with inflation
- c. A payment-in-kind bond, in which interest can be paid by increasing the outstanding principal rather than in cash

5. An investor compares two inflation-linked bonds from the same sovereign issuer. Bond X has a coupon calculated as a fixed rate applied to an inflation-adjusted principal. Bond Y has a coupon calculated as a periodically reset rate equal to inflation, applied to a fixed principal. How are these bonds classified?

- a. Bond X is capital-indexed; Bond Y is interest-indexed
- b. Bond X is interest-indexed; Bond Y is capital-indexed
- c. Both are capital-indexed because they both reference inflation

6. An interest-indexed inflation-linked bond can be thought of as functionally analogous to which other variable-interest instrument?

- a. A capital-indexed bond, where principal is the variable element
- b. A floating-rate note in which the market reference rate is the rate of inflation
- c. A zero-coupon bond issued at a discount to par

7. A pension fund needs to fund a known future liability that will be paid in exactly 7 years. Which bond structure best eliminates reinvestment risk for this purpose?

- a. A 7-year fixed-coupon bond with semiannual interest payments
- b. A 7-year floating-rate note, since coupons will move with prevailing rates
- c. A 7-year zero-coupon bond, which has no periodic cash flows to reinvest

8. A real estate developer is financing the construction of a major commercial project that will not generate revenue until completion in three years. The developer wants to issue debt now but minimise interest cash outflows until the project is operational. Which bond structure is most appropriate?

- a. A step-up bond with multiple predetermined coupon increases through the construction period
- b. A deferred coupon bond, paying no interest during the construction period and higher coupons thereafter
- c. A floating-rate note with coupon resets indexed to construction-cost inflation

9. A EUR 300 million floating-rate note pays quarterly interest equal to the three-month market reference rate plus 220 basis points. At the next reset, the market reference rate is 1.40%. What is the quarterly interest payment?

- a. EUR 10,800,000
- b. EUR 1,050,000
- c. EUR 2,700,000

10. A USD 100 million capital-indexed inflation-linked bond pays a 1.50% coupon semiannually. Over the most recent semiannual period, the consumer price index rose from 250.00 to 252.50. What is the next semiannual coupon payment?

- a. USD 757,500
- b. USD 1,515,000
- c. USD 750,000

11. Cumulative deflation has caused the inflation-adjusted principal of a capital-indexed bond to fall below its original par value by maturity. What principal amount does the investor most likely receive at maturity?

- a. The inflation-adjusted (lower) principal, reflecting the bond's full exposure to deflation
- b. The greater of the inflation-adjusted principal or the original par value
- c. The original par value plus accumulated unpaid interest from periods of deflation

12. A leveraged loan term sheet sets the credit spread as: 350 basis points if total leverage is 4.0x or above; 300 basis points if $4.0x > \text{leverage} \geq 3.0x$; 250 basis points if $3.0x > \text{leverage} \geq 2.0x$; 200 basis points if leverage is below 2.0x. The issuer's leverage ratio rises from 2.8x to 3.6x at the end of a reporting period. By how much does the credit spread change?

- a. An increase of 100 basis points
- b. No change because both ratios are below 4.0x
- c. An increase of 50 basis points

13. A standard fixed-rate bond delivers a 5% nominal coupon. If realised inflation over the period is 3%, what is the approximate real return earned by the investor?

- a. 2%
- b. 5%
- c. 8%

14. Why are deferred coupon bonds typically priced at a discount to par at issuance?

- a. The issuer pays no interest at all over the bond's life, requiring a discount to provide return
- b. The higher coupons in later years are usually not sufficient to fully compensate for the forgone interest in the deferral period
- c. Deferred coupon bonds are issued only by below-investment-grade issuers, which always trade at a discount

15. A sustainability-linked bond carries a 3.5% coupon with a step-up margin of 60 basis points if the issuer fails to meet a specified emissions reduction target. The issuer fails to meet the target. What is the new coupon rate?

- a. 0.60%
- b. 3.50%
- c. 4.10%