

1. Two bonds from Harwell Industries have the same maturity but different coupons. When the yield-to-maturity rises, their prices:

- a. Both fall, with the lower-coupon bond falling more in percentage terms
- b. Both fall by the same percentage regardless of coupon
- c. Both rise, with the higher-coupon bond rising more

2. A lower coupon produces a larger percentage price change for a given yield move because it means:

- a. A larger share of cash flow at maturity, magnified by discounting over many periods
- b. A shorter effective maturity for the bond
- c. A smaller final cash flow that is discounted less

3. The rule that a longer-maturity bond shows the larger percentage price change for a given yield move can fail only for:

- a. Low-coupon, long-term bonds trading at a discount
- b. Bonds trading at or above par
- c. Zero-coupon bonds of any maturity

4. Among bonds of the same maturity, the greatest percentage price change for a given yield move belongs to:

- a. A par bond, whose coupon equals its yield
- b. A high-coupon bond, which pays cash flow early
- c. A zero-coupon bond, which pays all its cash flow at maturity

5. An investor who wants the bond whose price is most sensitive to yield changes should choose one with:

- a. A high coupon and a short maturity
- b. A low coupon and a long maturity
- c. A high coupon and a long maturity

6. When a bond's yield-to-maturity rises and falls by the same amount, the resulting price changes are:

- a. Unequal — the price increase exceeds the price decrease in absolute value
- b. Equal in size but opposite in sign
- c. Larger for the yield increase than the yield decrease

7. Vardon Group has two bonds of the same maturity, one at a discount and one at a premium, held to maturity at an unchanged yield. Over time their prices:

- a. Diverge further from par as maturity nears
- b. Stay fixed until the maturity date
- c. Converge to par, the discount rising and the premium falling

8. Two 10-year Tenmark bonds both yield 4%: one has a 4% coupon and the other an 8% coupon. If the yield-to-maturity rises to 5%, the 8% bond's price falls 7.01%. The 4% bond's price most likely falls:

- a. By less than 7.01%
- b. By more than 7.01%
- c. By exactly 7.01%

9. The Callisto bond, a 5-year 3% coupon bond, trades at 91.34 at a 5% yield, against a par value of 100. One year later, with the yield unchanged, its price is most likely:

- a. Above 100
- b. Below 91.34
- c. Between 91.34 and 100

10. A 10-year, 4% annual-coupon bond is at par. Comparing a 100-basis-point yield fall with a 100-basis-point yield rise, the price change is:

- a. Larger for the rise, -8.53% , than the fall, $+7.72\%$
- b. Larger for the fall, $+8.53\%$, than the rise, -7.72%
- c. Equal at about 8% in each direction