13 Lecture - MGT201

Important Subjective

1. **What is a bond? Explain its basic features.**
Ans: A bond is a type of debt security that allows the issuer to raise capital by borrowing funds from investors. The basic features of a bond include the face value, coupon rate, maturity date, and issuer.

2. **What is the difference between a coupon rate and a yield?**
Ans: The coupon rate is the fixed rate of interest paid on a bond, while the yield is the overall return on the bond, taking into account the purchase price and the coupon payments.

3. **What is a callable bond?**
Ans: A callable bond is a bond that can be redeemed by the issuer before its maturity date. This option is typically included in the bond's terms and conditions, and the issuer can choose to exercise it if interest rates decline.

4. **What is a convertible bond?**
Ans: A convertible bond is a type of bond that can be converted into a specified number of shares of the issuer's stock. This feature provides investors with the opportunity to benefit from potential stock price increases, while also providing the security of a fixed-income investment.

5. **What is a zero-coupon bond?**
Ans: A zero-coupon bond is a type of bond that does not pay regular interest payments. Instead, it is sold at a discount to its face value and redeemed for the face value at maturity, providing investors with a capital gain.

6. **What is the difference between a secured and an unsecured bond?**
Ans: A secured bond is backed by specific assets of the issuer, while an unsecured bond is not. This means that in the event of default, holders of secured bonds have a higher claim on the issuer's assets.

7. **What is a junk bond?**
Ans: A junk bond is a type of bond that is rated below investment grade, indicating a higher risk of default. These bonds typically offer higher yields to compensate investors for this risk.

8. **What is the difference between a government bond and a corporate bond?**
Ans: A government bond is issued by a government entity, while a corporate bond is issued by a company. Government bonds are generally considered to be lower risk, while corporate bonds offer higher yields.

9. **What is a municipal bond?**
Ans: A municipal bond is a type of bond issued by a state or local government entity to fund public projects, such as schools or roads. These bonds are typically exempt from federal income tax and may also be exempt from state and local taxes.

10. **What is a bond rating? How is it determined?**
Ans: A bond rating is an assessment of the creditworthiness of a bond issuer, indicating the risk

of default. Bond ratings are typically assigned by rating agencies, such as Standard & Poor's or Moody's, and are based on a variety of factors, including the issuer's financial health, industry trends, and economic conditions.