14 Lecture - MGT201

Important Mcqs

1. **What is bond valuation?**
   a) The process of determining the future cash flows of a bond
   b) The process of determining the present value of a bond's future cash flows
   c) The process of determining the coupon rate of a bond
   d) The process of determining the maturity date of a bond

Answer: b) The process of determining the present value of a bond's future cash flows

2. **Which of the following factors is NOT considered in bond valuation?**
   a) Coupon rate
   b) Maturity date
   c) Face value
   d) Issuer's credit rating

Answer: d) Issuer's credit rating

3. **When interest rates rise, what happens to the value of a bond?**
   a) It increases
   b) It decreases
   c) It remains the same
   d) It cannot be determined

Answer: b) It decreases

4. **What is the relationship between bond prices and yields?**
   a) They have a positive relationship
   b) They have a negative relationship
   c) They have no relationship
   d) They have an inverse relationship

Answer: d) They have an inverse relationship

5. **What is a bond's yield to maturity (YTM)?**
   a) The interest rate the issuer pays on the bond
   b) The interest rate investors demand for the bond
   c) The annualized return an investor would earn if the bond is held to maturity
   d) The annual coupon payment divided by the face value of the bond

Answer: c) The annualized return an investor would earn if the bond is held to maturity

6. **What is the current yield of a bond?**
   a) The annual coupon payment divided by the face value of the bond
   b) The annualized return an investor would earn if the bond is held to maturity

c) The yield an investor earns by purchasing a bond at its current market price
d) The yield an investor earns by purchasing a bond at its face value

Answer: a) The annual coupon payment divided by the face value of the bond

7. **What is a bond's yield to call (YTC)?**
a) The interest rate the issuer pays on the bond
b) The interest rate investors demand for the bond
c) The annualized return an investor would earn if the bond is called before maturity
d) The annual coupon payment divided by the face value of the bond

Answer: c) The annualized return an investor would earn if the bond is called before maturity

8. **What is a premium bond?**
a) A bond that is trading above its face value
b) A bond that is trading at its face value
c) A bond that is trading below its face value
d) A bond that has a coupon rate higher than prevailing market interest rates

Answer: a) A bond that is trading above its face value

9. **What is a discount bond?**
a) A bond that is trading above its face value
b) A bond that is trading at its face value
c) A bond that is trading below its face value
d) A bond that has a coupon rate higher than prevailing market interest rates

Answer: c) A bond that is trading below its face value

10. What is the formula to calculate the present value of a bond's cash flows?
a) PV = C / r
b) PV = C / (1+r)^n
c) PV = C * r
d) PV = FV * r

Answer: b) PV = C / (1+r)^n