

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) $PV = C / (1+r)^n$