14 Lecture - MGT201

Important Subjective

1. **What is the definition of bond valuation?**

Bond valuation refers to the process of calculating the fair market value of a bond. It involves analyzing various factors such as the bond's coupon rate, yield to maturity, time to maturity, and the current market interest rate to determine its worth.

2. **What are the main factors that affect bond valuation?**

The main factors that affect bond valuation include the bond's coupon rate, yield to maturity, time to maturity, and the current market interest rate. Changes in any of these factors can impact the bond's value.

3. **What is the relationship between bond prices and interest rates?**

Bond prices and interest rates have an inverse relationship. When interest rates rise, bond prices fall, and when interest rates fall, bond prices rise.

4. **What is the difference between yield to maturity and current yield?**

Yield to maturity is the total return anticipated on a bond if it is held until maturity, while current yield is the annual income generated by a bond divided by its current market price.

5. **How does the time to maturity affect a bond's valuation?**

The time to maturity of a bond affects its valuation because it determines the number of interest payments that will be received and the amount of principal that will be repaid at maturity.

6. **What is the difference between a premium bond and a discount bond?**

A premium bond is a bond that is priced above its face value, while a discount bond is priced below its face value.

7. **How does the credit rating of a bond issuer affect its valuation?**

The credit rating of a bond issuer affects its valuation because it reflects the issuer's ability to repay the bond's principal and interest. Higher credit ratings generally result in lower risk and higher valuations.

8. **What is the significance of the par value of a bond?**

The par value of a bond represents the amount of principal that will be repaid at maturity. It is also used to calculate the bond's coupon payments.

9. **What is a callable bond?**

A callable bond is a bond that can be redeemed by the issuer before its maturity date. This can result in a loss of income for the bondholder.

10. **How does the yield curve affect bond valuations?**

The shape of the yield curve can affect bond valuations. When the yield curve is steep, long-term bonds generally have higher yields than short-term bonds, while the opposite is true when the yield curve is flat. This can impact the valuation of different types of bonds.