

# Fin 534 quiz 3 essay



**ASSIGN  
BUSTER**

Question 1 . 2 out of 2 points Your bank account pays a 6% nominal rate of interest. The interest is compounded quarterly. Which of the following statements is correct? Answer Selected Answer: The periodic rate of interest is 1.5% and the effective rate of interest is greater than 6%. Correct Answer: The periodic rate of interest is 1.5% and the effective rate of interest is greater than 6%.

Question 2 . 2 out of 2 points Which of the following statements regarding a 15-year (180-month) \$125,000, fixed-rate mortgage is correct? (Ignore taxes and transactions costs. Answer Selected Answer: The outstanding balance declines at a faster rate in the later years of the loan's life. Correct Answer: The outstanding balance declines at a faster rate in the later years of the loan's life.

Question 3 . 2 out of 2 points You plan to analyze the value of a potential investment by calculating the sum of the present values of its expected cash flows. Which of the following would lower the calculated value of the investment? Answer Selected Answer: The discount rate increases. Correct Answer: The discount rate increases.

Question 4 . out of 2 points Which of the following statements is correct, assuming positive interest rates and holding other things constant? Answer Selected Answer: If an investment pays 10% interest, compounded annually, its effective annual rate will be less than 10%. Correct Answer: A bank loan's nominal interest rate will always be equal to or less than its effective annual rate.

Question 5 . 0 out of 2 points Which of the following statements isCorrect ?

Answer SelectedAnswer: If you solve for I and get a negative number, then you must have made a mistake. Correct Answer: If  $CF_0$  is positive and all the other CFs are negative, then you can still solve for I.

Question 6 . 2 out of 2 points Which of the following statements isCorrect ?

Answer SelectedAnswer: Time lines can be constructed to deal with situations where some of the cash flows occur annually but others occur quarterly. Correct Answer: Time lines can be constructed to deal with situations where some of the cash flows occur annually but others occur quarterly.

Question 7 . 2 out of 2 points A \$150, 000 loan is to be amortized over 7 years, with annual end-of-year payments. Which of these statements isCorrect ? Answer SelectedAnswer: The proportion of each payment that represents interest versus repayment of principal would be higher if the interest rate were higher. Correct Answer: The proportion of each payment that represents interest versus repayment of principal would be higher if the interest rate were higher.

Question 8 . 2 out of 2 points A U. S. Treasury bond will pay a lump sum of \$1, 000 exactly 3 years from today. The nominal interest rate is 6%, semiannual compounding. Which of the following statements isCorrect ?

Answer SelectedAnswer: The present value of the \$1, 000 would be smaller if interest were compounded monthly rather than semiannually. Correct Answer: The present value of the \$1, 000 would be smaller if interest were compounded monthly rather than semiannually.

Question 9 . 2 out of 2 points Your bank account pays an 8% nominal rate of interest. The interest is compounded quarterly. Which of the following statements is correct? Answer Selected Answer: The periodic rate of interest is 2% and the effective rate of interest is greater than 8%. Correct Answer: The periodic rate of interest is 2% and the effective rate of interest is greater than 8%.

Question 10 . 2 out of 2 points You are considering two equally risky annuities, each of which pays \$5,000 per year for 10 years. Investment ORD is an ordinary (or deferred) annuity, while Investment DUE is an annuity due. Which of the following statements is correct? Answer Selected Answer: The present value of DUE exceeds the present value of ORD, and the future value of DUE also exceeds the future value of ORD. Correct Answer: The present value of DUE exceeds the present value of ORD, and the future value of DUE also exceeds the future value of ORD.

Question 11 . 0 out of 2 points Which of the following bank accounts has the lowest effective annual return? Answer Selected Answer: An account that pays 8% nominal interest with daily (365-day) compounding. Correct Answer: An account that pays 7% nominal interest with monthly compounding.

Question 12 . 2 out of 2 points Which of the following statements is correct? Answer Selected Answer: The cash flows for an annuity must all be equal, and they must occur at regular intervals, such as once a year or once a month. Correct Answer: The cash flows for an annuity must all be equal, and they must occur at regular intervals, such as once a year or once a month.

Question 13 . 2 out of 2 points Which of the following statements isCorrect ?

Answer SelectedAnswer: Time lines can be constructed for annuities where the payments occur at either the beginning or the end of the periods. Correct Answer: Time lines can be constructed for annuities where the payments occur at either the beginning or the end of the periods.

Question 14 . 2 out of 2 points Which of the following statements isCorrect ?

Answer SelectedAnswer: Time lines can be constructed where some of the payments constitute an annuity but others are unequal and thus are not part of the annuity. Correct Answer: Time lines can be constructed where some of the payments constitute an annuity but others are unequal and thus are not part of the annuity.

Question 15 . 2 out of 2 points You plan to analyze the value of a potential investment by calculating the sum of the present values of its expected cash flows. Which of the following would increase the calculated value of the investment? Answer SelectedAnswer: The discount rate decreases. Correct Answer: The discount rate decreases.

Question 16 . 2 out of 2 points Which of the following statements isCorrect ?

Answer SelectedAnswer: Sinking fund provisions sometimes turn out to adversely affect bondholders, and this is most likely to occur if interest rates decline after the bond has been issued. Correct Answer: Sinking fund provisions sometimes turn out to adversely affect bondholders, and this is most likely to occur if interest rates decline after the bond has been issued.

Question 17 . 2 out of 2 points If its yield to maturity declined by 1%, which of the following bonds would have the largest percentage increase in value?

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Answer Selected Answer: A 10-year zero coupon bond. Correct Answer: A 10-year zero coupon bond.

Question 18 . 2 out of 2 points Which of the following events would make it more likely that a company would choose to call its outstanding callable bonds? Answer Selected Answer: Market interest rates decline sharply. Correct Answer: Market interest rates decline sharply.

Question 19 . 2 out of 2 points You are considering two bonds. Bond A has a 9% annual coupon while Bond B has a 6% annual coupon. Both bonds have a 7% yield to maturity, and the YTM is expected to remain constant. Which of the following statements is Correct ? Answer Selected Answer: The price of Bond A will decrease over time, but the price of Bond B will increase over time. Correct Answer: The price of Bond A will decrease over time, but the price of Bond B will increase over time.

Question 20 . 2 out of 2 points Which of the following statements is Correct ? Answer Selected Answer: If a coupon bond is selling at par, its current yield equals its yield to maturity. Correct Answer: If a coupon bond is selling at par, its current yield equals its yield to maturity. .

Question 21 . 2 out of 2 points Assume that all interest rates in the economy decline from 10% to 9%. Which of the following bonds would have the largest percentage increase in price? Answer Selected Answer: A 10-year zero coupon bond. Correct Answer: A 10-year zero coupon bond.

Question 22 . 2 out of 2 points Tucker Corporation is planning to issue new 20-year bonds. Initially, the plan was to make the bonds non-callable. If the

bonds were made callable after 5 years at a 5% call premium, how would this affect their required rate of return? Answer Selected Answer: The required rate of return would increase because the bond would then be more risky to a bondholder. Correct Answer: The required rate of return would increase because the bond would then be more risky to a bondholder.

Question 23 . 2 out of 2 points An investor is considering buying one of two 10-year, \$1,000 face value bonds: Bond A has a 7% annual coupon, while Bond B has a 9% annual coupon. Both bonds have a yield to maturity of 8%, which is expected to remain constant for the next 10 years. Which of the following statements is Correct? Answer Selected Answer: One year from now, Bond A's price will be higher than it is today. Correct Answer: One year from now, Bond A's price will be higher than it is today.

Question 24 . 2 out of 2 points Which of the following statements is Correct? Answer Selected Answer: Relative to a coupon-bearing bond with the same maturity, a zero coupon bond has more interest rate price risk but less reinvestment rate risk. Correct Answer: Relative to a coupon-bearing bond with the same maturity, a zero coupon bond has more interest rate price risk but less reinvestment rate risk.

Question 25 . out of 2 points Amram Inc. can issue a 20-year bond with a 6% annual coupon. This bond is not convertible, is not callable, and has no sinking fund. Alternatively, Amram could issue a 20-year bond that is convertible into common equity, may be called, and has a sinking fund. Which of the following most accurately describes the coupon rate that Amram would have to pay on the convertible, callable bond? Answer

Selected Answer: It could be less than, equal to, or greater than 6%. Correct Answer: It could be less than, equal to, or greater than 6%.

Question 26 . 2 out of 2 points A 15-year bond with a face value of \$1,000 currently sells for \$850. Which of the following statements is correct?

Selected Answer: The bond's yield to maturity is greater than its coupon rate. Correct Answer: The bond's yield to maturity is greater than its coupon rate.

Question 27 . 2 out of 2 points Which of the following statements is correct?

Selected Answer: All else equal, senior debt generally has a lower yield to maturity than subordinated debt. Correct Answer: All else equal, senior debt generally has a lower yield to maturity than subordinated debt.

Question 28 . 2 out of 2 points Which of the following bonds would have the greatest percentage increase in value if all interest rates fall by 1%?

Selected Answer: 20-year, zero coupon bond. Correct Answer: 20-year, zero coupon bond.

Question 29 . 2 out of 2 points A 10-year bond with a 9% annual coupon has a yield to maturity of 8%. Which of the following statements is correct?

Selected Answer: If the yield to maturity remains constant, the bond's price one year from now will be lower than its current price. Correct Answer: If the yield to maturity remains constant, the bond's price one year from now will be lower than its current price.

Question 30 . 2 out of 2 points A 10-year Treasury bond has an 8% coupon, and an 8-year Treasury bond has a 10% coupon. Both bonds have the same



yield to maturity. If the yield to maturity of both bonds increases by the same amount, which of the following statements would be correct? Answer

Selected Answer: Both bonds would decline in price, but the 10-year bond would have the greater percentage decline in price. Correct Answer: Both bonds would decline