DEBT MARKETS AND FIXED INCOME SECURITIES

TI &RM Chapter 5

Q: 1Which of the following statements is NOT correct regarding the debt market?

a) The debt market facilitates the trading of fixed-income securities like bonds and debentures.

b) In the debt market, investors lend money to issuers like governments and corporations.

c) The debt market provides ownership rights to investors in the issuing company.

d) Investors receive interest at a predetermined rate for lending funds through debt instruments.

Q: 2Which of the following is NOT a borrower in the debt market?

a) Government

b) Corporations

c) RBI
d) Banks

Q: 3______________ is a financial instrument whereby the issuer of the bond raises capital or funds at a certain cost for a certain time period and pays back the principal amount on maturity of the bond.

a) Equity Share
b) Mutual Fund
c) Bond
d) All of the above

Q: 4Which of the following is NOT a characteristic of a bond?
a) It has a fixed maturity date.
b) It pays interest to the bondholder at a predetermined rate.
c) It provides ownership rights in the issuing company.
d) It involves repayment of principal on redemption.

Q: 5Which of the following is NOT a correct match?

a) Face Value – Amount borrowed
b) Coupon Rate – Interest on bond
c) Market Value – Always equal to face value
d) Redemption Value – Amount paid at maturity

Q: 6What is the difference between clean price and dirty price?

a) Dirty price includes accrued interest, clean price does not
b) Clean price is more accurate than dirty price
c) Both are the same
d) Clean price includes fees

Q: 7When the redemption amount of a bond is payable on one particular date it is termed as_________.

a) Staggered Redemption
b) Bullet Redemption
c) Floating Redemption
d) Zero-Coupon Redemption

Q: 8A bond with a fixed interest rate throughout its life is called______

a) Floating Rate Bond
b) Zero-Coupon Bond
c) Callable Bond
d) Fixed Rate Bond

Q: 9Which bond pays no regular interest and is issued at a discount?

a) Fixed Rate Bond
b) Floating Rate Bond
c) Zero-Coupon Bond
d) Puttable Bond

Q: 10 What is a Puttable Bond?

a) A bond where issuer can call before maturity
b) A bond that pays interest monthly
c) A bond where holder can sell before maturity
d) A bond with no maturity

Q: 11 __________securities represent long-term bonds issued by the central government, featuring a stable or variable coupon (interest rate). These securities have maturities spanning from 5 to 40 years.

a) Treasury Bills

b) Commercial Papers
c) Dated government securities
d) All of the above

Q: 12 Which of the following debt instruments are issued by state governments in India to fund development projects and meet fiscal deficit requirements and have a typical maturity period of ten years?

a) State Development Loans
b) Dated government securities.
c) Inflation Indexed Bonds
d) None of the above

Q: 13 T-Bills, which are short-term securities sold at a discount and redeemed at face value, help the government cover immediate expenses and manage cash flow efficiently. T- bills are issued by ___________.

a) The Central Government
b) The State Government
c) The Local Government
d) All of the above

Three types of T bills are issued, namely 91-day, 182-day and 364-day.

Q: 14 Which of this statement is not correct regarding Inflation Indexed Bonds?

a) Inflation Indexed Bonds were first issued in 1997.
b) These bonds are issued by governments.
c) These bonds are issued to hedge against inflation.
d) They are substitutes for holding physical gold.

Q: 15 ________________ are government-backed securities that are valued in units of grams of gold. They serve as alternatives to possessing actual physical gold. Investors need to make a cash payment for the issue price, and the bonds will be cashed out upon maturity.

a) Dated government securities.
b) Inflation Indexed Bonds
c) Sovereign Gold Bond
d) None of the above

Q: 16 Cash Management Bills (CMBs) are a type of short-term debt instrument issued by the government to address what kind of financial situation?

a) Long-term investment needs

b) Temporary cash flow mismatches

c) Funding large infrastructure projects

d) Paying off long-term debts

Q: 17 Which of the following is NOT a feature of Approved Securities?

a) Backed by government guarantee

b) Eligible for investment to meet SLR requirements

c) Have an active and liquid secondary market

d) May carry higher coupon than similar government loans

Q: 18 Non-SLR securities are primarily issued to raise funds for______.

a) Meeting CRR requirements

b) Foreign exchange reserves
c) Project finance or working capital
d) Budget deficit

Q: 19 Which of the following is NOT true about Non-SLR securities?

a) They are eligible for SLR maintenance by banks
b) They are issued by PSUs and private companies
c) They include bonds and debentures
d) Municipal corporations can issue them

Q: 20 Which of the following statements are correct regarding Public Sector Undertakings Bonds?

1. PSU Bonds are medium or long-term debt instruments issued by government-owned undertakings for project or expansion financing.
2. Most PSU Bonds are sold through private placements at market-determined interest rates and are transferable.
3. The term or period of bonds is generally between 5 to 10 years with or without options for early redemption.
4. Compared to Government Securities, the coupon on these bonds would be higher.

a) 1 and 2 only

b) 2 and 3 only

c) 1, 2, and 4 only

d) 1, 2, 3, and 4

Q: 21 Which of the following is NOT a characteristic of a debenture?

a) Promise to pay periodic interest.

b) Repayment of principal at maturity.

c) Always backed by collateral.

d) Issued by companies and governments.

Q: 22 Which of the following statements are correct about Convertible Debentures?

1. Non-Convertible Debentures (NCDs) cannot be converted into equity shares.
2. Fully Convertible Debentures (FCDs) convert fully into equity shares at issuer's notice.
3. Partly Convertible Debentures (PCDs) convert partially into equity shares on issuer's notice.

4. Optionally Convertible Debentures (OCDs) must be converted into shares by the investor.

a) 1, 2, and 3
b) 2, 3, and 4
c) 1, 3, and 4
d) All of the above

Q: 23 Which of the following are features of secured debentures?

a) They are secured by a charge on fixed assets of the issuer.
b) If the issuer defaults, assets can be sold to repay investors.
c) They provide higher security to investors compared to unsecured debentures.
d) All of the above

Q: 24 Which type of debenture allows the investor to convert it into equity shares at their option?

a) Non-Convertible Debenture
b) Partly Convertible Debenture
c) Fully Convertible Debenture

d) Optionally Convertible Debenture

Q: 25 _____________measures the rate of return earned on a bond if it is purchased at its current market price and if the coupon interest is received on face value.

a) Simple Yield
b) Current Yield
c) Market Yeild
d) all of the above

Q: 26 ABC Corporation issued a bond with a face value of 1,0000 and an annual coupon rate of 6 %. The bond is currently trading at a market price of 9500. Calculate the current yield of the bond.

a) 6.31%
b) 6.67%
c) 7.37%
d) 8.73%

Solution

Current Yield = (Annual Coupon Payment / Current Market Price) * 100%

Q: 27 Which of these statements is not correct regarding Yield to maturity?

a) It is the annual interest rate earned on market price of bond.

b) It is the rate of return earned by the investor who purchases a bond and holds it till maturity.

c) It is the discount rate or rate of return, which equals the present value of cash flows to the current price/ purchase price.

d) all of the above

Q: 28 Consider a 100000-par value bond, whose current market price is Rs 90000 and coupon rate of 10 per cent and has a maturity period of 10 years. What would be the rate of return that an investor earns if he purchases the bond and holds it until maturity?

a) 10.57 %

b) 11.57 %

c) 12.57 %

d) 13.57 %

Solution

$$YTM = \frac{Annual\ interest + \frac{Redemable\ value - purchase\ price}{Life\ of\ bond}}{\frac{Redemable\ value + purchase\ price}{2}} X100$$

Q: 29 ABC Corporation issued a bond with a face value of 1,0000 a coupon rate of 7% per annum (paid annually), and a maturity period of 5 years. The bond is currently trading at a market price of 9500. Calculate the Yield to Maturity (YTM) of the bond.

a) 6.11%
b) 7.37%
c) 8.20%
d) 9.89%

Solution

$$YTM = \frac{Annual\ interest + \dfrac{Redemable\ value - purchase\ price}{Life\ of\ bond}}{\dfrac{Redemable\ value + purchase\ price}{2}} X100$$

Q: 30 _______________are frameworks that explain the relationship between interest rates and bond prices. They provide insights into how changes in interest rates affect the value of bonds in the market.

a) Theorems of Bond Value
b) Theories Yield value.
c) Theories Return value.
d) all of the above

Q: 31 When is the value of a bond equal to its par value?

a) When the required rate of return is less than the coupon rate
b) When the required rate of return is equal to the coupon rate
c) When the required rate of return is greater than the coupon rate
d) When the bond is about to mature

Q: 32 Which of the following statements is NOT correct about bond value relative to coupon rate and required rate of return?

a) If the required rate of return is greater than the coupon rate, the bond value is less than its par value.
b) If the required rate of return is less than the coupon rate, the value of the bond is greater than its par value.
c) The premium on the bond declines as maturity approaches when required rate of return is less than the coupon rate.
d) None of the above

Q: 33 __________________is the length of time it takes for an investor to receive their money back from a bond investment.

a) Duration of Bond
b) Yield of Bond
c) Maturity of Bond
d) Coupon rate of Bond

Q: 34 Which of these statements is correct regarding Bond Duration?

a) The duration of a bond is typically shorter than its term to maturity.
b) The duration of a bond equals its term to maturity only in the case of a zero-coupon bond of a bond.
c) Increasing the coupon frequency reduces the duration, while decreasing the coupon frequency increases the duration.
d) all of the above

Q: 35 Bank ABC held a bond with a face value of Rs 10000, coupon rate 8% payable yearly and maturity after 5 years and YTM is 6%. Calculate the Duration of the bond and Modified Duration.

a) 4.34 years ,4.09 years
b) 5.34 years, 5.09 years
c) 6.34 years, 6.09 years
d) 7.34 years, 7.09 years

Solution

$$Duration = \frac{\Sigma pvT}{\Sigma pv} \quad ,Modified\ duration = \frac{Duration}{1+r}$$

A	Cash inflow	Present value factor $1/(1+r)^n$	Present value of cash inflow (P.V.F X cash inflow)	Present value X Time
1	800	0.9433	754	754
2	800	0.8899	711	1422
3	800	0.8395	671	2013
4	800	0.7919	633	2532
5	10800	0.7470	8067	40335
			10836	**47056**

Q: 36 How are HTM (Held-to-Maturity) investments typically valued?

a) At market value

b) At acquisition cost

c) At discounted cash flow

d) At redemption value

Q: 37 What happens to the difference between the acquisition cost and the redemption value of an HTM investment if the redemption value is lower?

a) It is immediately charged to the profit and loss account.

b) It is ignored for accounting purposes.

c) It is amortized over the remaining years to maturity.

d) It is added to the investment's book value.

Q: 38 Which category of investments requires mandatory mark-to-market accounting?

a) HTM

b) HFT

c) AAC

d) All of the above

HFT (Held-for-Trading) securities must be marked-to-market.

Q: 39 In the case of AFS (Available-for-Sale) investments, where is the depreciation charged?

a) Directly to the balance sheet

b) To the investment fluctuation reserve

c) To the profit and loss account

d) To the shareholders' equity