FIN101 Introduction to Finance Practice Questions - III


Question 1: A Treasury bond (government bond) has a coupon rate of 8% and a face value of $1000 and 10 years to maturity. The coupons are paid semi-annually (that is every six months $40 coupons are paid). The six monthly YTM is 7%. What is the price of the bond?
A) 954
B) 980
C) 1,053
D) 1,071
E) 1,098

Question 2: A Treasury bond (government bond) has a par value of $1,000, maturity of 6 years and a price of $875. The coupons are paid semi-annually (that is every six months). The six monthly YTM is 4%. What is the six-monthly coupon?
A) 24.83
B) 25.53
C) 26.68
D) 27.52
E) 28.94

Information for questions 3 to 5. A bond has an annual coupon rate of 5% and a face value of $1000 and 10 years to maturity. The coupons are paid semi-annually. The bond also makes a balloon payment of $200 at the end of the 5th year (in addition to the normal coupon payment). The semi-annual (six monthly) rate of return (YTM) for the bond is 3% (this rate of return is for all cash flows received from owning this bond).

Question 3) What is six monthly coupon?
A) 20
B) 25
C) 40
D) 50
E) 200

Question 4) What is the bond price?
A) 1,074.43
B) 1,096.92
C) 1,127.32
D) 1,151.87
E) 1,182.19

Question 5) What would be the change in price of the bond in one years time (that is when there are 9 years left to maturity) if the yield to maturity (YTM)

remained the same?
A) 12.281
B) 12.953
C) 13.193
D) 14.683
E) 15.393

Answers
1) D
2) C
3) B
4) A
5) D