

Bonds

14-5 Assignment

Read Section 14-5 in the textbook packet and answer the following questions.

Questions 316-349: Determine the best answer.

- _____ 316. When a bond is first issued, it is sold at
- face value.
 - discount.
 - premium.
 - any of these.
- _____ 317. Other factors being equal, _____ bonds will offer the highest yields.
- BBB. Treasury
 - AAA-rated corporate
 - AA-rated corporate
 - A-rated corporate
- _____ 318. _____ is (are) tax deductible for businesses.
- Interest paid to bondholders
 - Dividends paid to preferred stockholders
 - Dividends paid to common stockholders
 - All of these
- _____ 319. If Moody's downgrades a bond, which of the following would fall?
- Face value
 - Market price
 - Coupon rate
 - Current yield
- _____ 320. _____ bonds are long-term, high-risk, high-interest-rate corporate (or municipal) IOUs issued by companies (or municipalities) with poor or no credit ratings.
- Junk
 - Municipal
 - Zero-coupon
 - Investment-grade
- _____ 321. Which of the following is not true regarding U.S. government securities?
- They can be purchased directly from the government or through a broker.
 - Interest income is tax exempt from state and local taxes.
 - Interest rates are lower than rates on corporate bonds.
 - You receive certificates for the bonds purchased.
- _____ 322. A benefit of Treasury securities is that they
- represent a safe source of current income.
 - have excellent liquidity.
 - are simple to acquire and sell.
 - All of these.

- _____ 323. The shortest-term Treasury issue is called a
- U.S. Series EE savings bond.
 - Treasury bond.
 - Treasury bill.
 - Treasury note.
- _____ 324. _____ are sold on a discount basis with the gain at maturity representing the interest earned.
- Treasury bills
 - Treasury notes
 - Treasury bonds
 - Federal agency bonds
- _____ 326. Typically the lowest rate of interest would be paid on
- U.S. Treasury bills.
 - U.S. Treasury bonds.
 - U.S. Treasury notes.
 - federal agency issues.
- _____ 328. Which of the following types of investments can potentially provide tax-exempt interest if the principal and interest are used to pay a child's college education?
- Certificates of deposit
 - A government-issued super NOW account
 - Series EE U.S. government bonds
 - Money market mutual fund
- _____ 329. Which of the following statements regarding Series EE U.S. savings bonds is not true?
- A \$100 bond can be purchased for \$50.
 - The interest is usually compounded semiannually.
 - Interest is tax-free at redemption if the proceeds are used to fund a child's college education.
 - The interest on the bonds is paid out semiannually.
- _____ 330. Which of the following statements regarding U.S. savings bonds is most likely to provide a hedge against inflation?
- I-Bond
 - Series EE Bond
 - T-Bill
 - Treasury Note
- _____ 331. You can purchase _____ directly from the issuer and avoid the transaction fees.
- municipal bonds
 - Treasury securities
 - corporate bonds
 - zero-coupon bonds

- ____ 332. The interest earned on a ____ will equal the inflation rate plus a fixed assigned rate of return.
- a. revenue bond
 - b. tax-exempt bond
 - c. Treasury bill
 - d. I-bonds
- ____ 333. Ginnie Mae and Freddie Mac bonds are examples of ____ bonds.
- a. U.S. Series EE savings
 - b. Treasury
 - c. Federal agency
 - d. municipal
- ____ 335. The legal document detailing the debtor's responsibilities regarding the bond issue is called the
- a. debenture.
 - b. registration.
 - c. mortgage obligation.
 - d. indenture.
- ____ 336. When a bond indenture requires that money be set aside annually to repay the bond, the bond
- a. has a sinking fund.
 - b. is a senior bond.
 - c. is a serial bond.
 - d. is callable.
- ____ 337. Capital gains on the sale of municipal bonds are taxable and will occur when bonds are purchased
- a. at a discount and then sold at a higher price.
 - b. at a discount and then redeemed for full value at maturity.
 - c. in an IRA account.
 - d. at a discount and then sold at a higher price at full value at maturity.
- ____ 339. ____ bonds are particularly advantageous to investors by avoiding income taxes completely by buying them in a tax sheltered retirement account.
- a. Zero-coupon
 - b. U.S. Treasury
 - c. Municipal
 - d. Federal agency
- ____ 340. Unsecured bonds are called ____ bonds.
- a. mortgage
 - b. collateral trust
 - c. equipment
 - d. debenture
- ____ 341. A bond that allows the issuer to redeem the bond prior to maturity is said to be
- a. a debenture.
 - b. an indenture.
 - c. callable.
 - d. open-ended.
- ____ 342. ____ investments have a variable value and a fixed yield.
- a. Bond
 - b. Common stock
 - c. Certificates of deposit
 - d. Money market mutual fund

- _____ 343. The ____ of a bond is variable.
- stated coupon rate of interest
 - face value
 - maturity date
 - market price
- _____ 344. An investor can make money on bond investments by receiving
- interest income.
 - dividend income.
 - capital gains.
 - both interest income and capital gains.
- _____ 347. You bought a GMI bond for \$1,000 that has a coupon rate of 7.75 percent. If you were to sell this bond several years before maturity when the interest rate on comparable new issues was 9.5 percent, you would probably get
- \$1,000.
 - less than \$1,000.
 - more than \$1,000.
 - Not enough information is given to answer the question.
- _____ 348. When a bond is purchased at its face value, yield to maturity will be ____ the coupon rate printed on the certificate.
- more than
 - less than
 - the same as
 - Not enough information is given to answer the question.
- _____ 349. When a bond is purchased at a discount from its face value, yield to maturity will be ____ the coupon rate printed on the certificate.
- more than
 - less than
 - the same as
 - Not enough information is given to answer the question.