49 FIXED-INCOME INSTRUMENT FEATURES

1. Every six months a bond pays coupon interest equal to 3% of its par value. This bond is a:
   (A) 3% semiannual coupon bond.
   (B) 6% annual coupon bond.
   (C) 6% semiannual coupon bond.

2. Assuming bond yields are greater than zero, which of the following statements about zerocoupon bonds is least accurate?
   (A) A zero coupon bond may sell at a premium to par when interest rates decline.
   (B) All interest is earned at maturity.
   (C) The lower the price, the greater the return for a given maturity.

3. An analyst observes a 5-year, 10% coupon bond with semiannual payments. The face value is £1,000. How much is each coupon payment?
   (A) £50.
   (B) £25.
   (C) £100.

4. Restrictions on asset sales and additional borrowings by a bond issuer are best characterized as:
   (A) positive covenants.
   (B) negative covenants.
   (C) affirmative covenants.

5. A covenant that requires the issuer not to let the insurance coverage lapse on assets pledged as collateral is an example of a(n):
   (A) affirmative covenant.
   (B) inhibiting covenant.
   (C) negative covenant.

6. Which of the following fixed income securities is classified as a money market security?
   (A) Newly issued security that will mature in one year.
   (B) Security issued 18 months ago that will mature in six months.
   (C) Security issued six months ago that will mature in one year.

7. Which of the following contains the overall rights of the bondholders?
   (A) Covenant.
   (B) Indenture.
   (C) Rights offering.

8. A bond's indenture least likely specifies the:
   (A) source of funds for repayment.
   (B) covenants that apply to the issuer.
   (C) identity of the lender.

9. Features specified in a bond indenture least likely include the bond's:
   (A) coupon rate and maturity date.
   (B) issuer and rating.
   (C) par value and currency.

10. A bond is trading at a premium if its:
   (A) price is greater than its par value.
   (B) redemption value is greater than its face value.
   (C) is greater than its coupon rate.

11. Which of the following bond covenants is considered negative?
   (A) Maintenance of collateral.
   (B) No additional debt.
   (C) Payment of taxes.