56 Yield and Yield Spread Measures for Floating-Rate Instruments

1. Whitetail Company issues 73-day commercial paper that will pay $1,004 at maturity per $1,000 face value. The bond-equivalent yield is closest to:
   (A) 2.00%.
   (B) 2.02%.
   (C) 1.97%.

2. Jacobs Company (Jacobs) has issued floating-rate notes (FRNs) using a market reference rate (MRR) of 3.5%. Jacobs is deemed as having less credit risk than the institution from which the MRR was derived. Which of the following annualized coupon rates for the note is most likely?
   (A) 3.50%.
   (B) 3.15%.
   (C) 3.85%.

3. If the discount margin is lower than the quoted margin on a floating rate note, it is most likely that:
   (A) the reference rate has decreased.
   (B) the note's credit quality has improved.
   (C) the note is priced at a discount.

4. If the quoted margin (QM) of a floating-rate note (FRN) is deemed to be deficient, the FRN will trade at what price relative to par value?
   (A) At par.
   (B) Below par.
   (C) Above par.

5. A $1,000 par value note is priced at an annualized discount of 1.5% based on a 360-day year and has 150 days to maturity. The note will have a bond equivalent yield that is:
   (A) equal to 1.5%.
   (B) higher than 1.5%.
   (C) lower than 1.5%.

6. The relationship between the quoted margin and the discount margin on a floating-rate note (FRN) is such that if the note is priced below par, it must be a case that the discount margin is:
   (A) equal to the quoted margin.
   (B) greater than the quoted margin.
   (C) less than the quoted margin.

7. As a floating-rate note (FRN) gets closer to maturity, assuming no change in credit quality since the original issuance, the quoted margin (QM) will:
   (A) fall below the discount margin.
   (B) equal the discount margin.
   (C) exceed the discount margin.

8. An investor buys a pure-discount note that matures in 146 days for $971. The bond equivalent yield is closest to:
   (A) 1.2%.
   (B) 3.0%.
   (C) 7.5%.

9. A bond-equivalent yield for a money market instrument is a(n):
   (A) add-on yield based on a 365-day year.
   (B) discount yield based on a 360-day year.
   (C) discount yield based on a 365-day year.

10. A company issues a $1 million annual coupon floating-rate note (FRN) with a quoted annual market reference rate (MRR) of 3.5% plus a quoted margin (QM) of 80 basis points. With three years remaining until maturity, the MRR is quoted at the same 3.5% with a discount margin equal to 50 basis points. The estimated value of the FRN is closest to:
    (A) $1,008,910.
    (B) $1,008,325.
    (C) $1,007,740