63 CREDIT ANALYSIS FOR GOVERNMENT ISSUERS

1. Compared to corporate bonds with the same credit ratings, municipal general obligation (GO) bonds typically have less credit risk because:
   (A) default rates on GOs are typically lower for same credit ratings.
   (B) GOs are not affected by economic downturns.
   (C) governments can print money to repay debt.

2. City council of a U.S. municipality has authorized the issuance of $100 million bonds to finance the construction of a toll road. This bond would most likely be characterized as a(n):
   (A) general obligation (GO) bond.
   (B) revenue bond.
   (C) agency bond.

3. A credit analyst determines that one of the sovereign governments it recently assessed has a very high interest-to-GDP ratio, while also having low real GDP growth volatility. Based on these two factors only, the analyst would likely conclude that the sovereign government has:
   (A) weak fiscal strength and strong economic growth and stability factors.
   (B) weak fiscal strength and weak economic growth and stability factors.
   (C) strong fiscal strength and weak economic growth and stability factors.

4. Which of the following statements about municipal bonds is least accurate?
   (A) A municipal bond guarantee is a form of insurance provided by a third party other than the issuer.
   (B) Bonds with municipal bond guarantees are more liquid in the secondary market and generally have lower required yields.
   (C) Revenue bonds have lower yields than general obligation bonds because they are backed by specific projects.

5. Compared to general obligation (GO) bonds, revenue bonds typically:
   (A) are backed by the full faith and credit of the issuing government.
   (B) have higher credit ratings.
   (C) have higher yields.

6. An institutional investor is considering purchasing sovereign government debt, but is worried that in the event the issuing government refused to pay its obligations, it would have no recourse to the government. To evaluate this risk, the investors should assess the sovereign government's:
   (A) fiscal flexibility factors.
   (B) institutions and policy factors.
   (C) monetary effectiveness factors.

7. Which of the following statements about municipal general obligation (GO) bonds and revenue bonds is most accurate?
   (A) Both GO and revenue bonds are effectively funded by taxpayers.
   (B) Only GO bonds are effectively funded by taxpayers.
   (C) Only revenue bonds are effectively funded by taxpayers.