

FIN 423-Quiz 3 Answers (Note that these questions are from HWK2)

1. Which one of the following measures a bond's sensitivity to changes in market interest rates?
 - A. yield to call
 - B. yield to market
 - C. duration**
 - D. immunization
 - E. target date valuation

2. A change in a bond's price caused by which one of the following is defined as the dollar value of an 01?
 - A. change in yield to call due to passage of one year
 - B. change in yield to maturity of one percent
 - C. change in yield to maturity of one basis point**
 - D. change in coupon rate of one percent
 - E. change in coupon rate of one basis point

3. Which combination of bond characteristics causes a bond to be most sensitive to changes in market interest rates?
 - I. low coupon rates
 - II. high coupon rates
 - III. short time to maturity
 - IV. long time to maturity
 - A. III only
 - B. I and III only
 - C. I and IV only**
 - D. II and III only
 - E. II and IV only

4. Which one of the following statements is correct concerning Macaulay duration?
 - A. The Macaulay duration of a zero coupon bond is equal to the time to maturity.**
 - B. Most bonds have Macaulay durations in excess of 15 years.
 - C. The Macaulay duration of a coupon bond is a linear function between the time to maturity and the duration.
 - D. The Macaulay duration of a coupon bond is greater than that of a zero coupon bond given equal maturity dates.
 - E. The percentage change in a bond's price is approximately equal to the change in the yield to maturity multiplied by $(-1 \times \text{Macaulay duration})$.

5. The expectations theory of the term structure of interest rates states that
 - A. forward rates are determined by investors' expectations of future interest rates.**
 - B. forward rates exceed the expected future interest rates.
 - C. yields on long- and short-maturity bonds are determined by the supply and demand for the securities.
 - D. All of these are correct.
 - E. None of these is correct.