EXERCISE INSTRUCTIONS:

1. Please fill in your name and student ID number on Side 1 of your bubble sheet and write Econ 353-Ex5 in the top margin of Side 1.
2. Use a number 2 pencil to mark your answers on Side 1 of the bubble sheet to all eight questions Q1 through Q8, below, which are in multiple choice format. Each question is worth 1 point.

Q1 (1 point). Which of the following are true for a (ZERO COUPON) DISCOUNT BOND with a face value F:

A. The interest rate is always zero.
B. Treasury bills take this form.
C. The purchase price is usually less than F.
D. All of the above.
E. Only B and C above.

Q2 (1 point). Which of the following properties are true for a COUPON BOND?

A. The borrower makes a coupon payment every payment period plus a payment of the face value at maturity.
B. The borrower makes the same fixed payment in every payment period during the life of the bond.
C. Residential mortgages are frequently of this type.
D. Only B and C above.
E. Only A and C above.

Q3 (1 point). To claim that a lottery winner who is to receive $1 million per year for the next twenty years has just won $20 million dollars is misleading, since it ignores

A. moral hazard
B. par value
C. risk aversion
D. the discounting of future dollar awards
E. interest rate risk
Q4 (1 point). If a security pays $55 at the end of one year and $133 at the end of three years, then its present value is $150 (rounded off to the nearest dollar) if the INTEREST RATE is

A. 5 percent  
B. 10 percent  
C. 12.5 percent  
D. 15 percent

Q5 (1 point). An increase in the length of time to a promised future payment ____ the present value of the payment calculated in terms of any positive interest rate.

A. decreases  
B. increases  
C. has no effect on  
D. is irrelevant to

Q6 (1 point). The interest rate that equates the present value of payments received from a debt instrument to its current value is

A. the simple interest rate  
B. the current yield  
C. the yield to maturity  
D. the real interest rate  
E. the coupon rate

Q7 (1 point). A coupon bond with a face value of $8,000, an (annual) coupon payment of $400, a 2-year maturity, and a purchase price of $7,304.87 has a COUPON RATE of

A. 1 percent  
B. 5 percent  
C. 8 percent  
D. 10 percent  
E. 12 percent

Q8 (1 point). If a security pays $110 at the end of next year and $121 at the end of two years, what is its YIELD TO MATURITY if it currently sells for $200?

A. 9 percent  
B. 10 percent  
C. 11 percent  
D. 12 percent