MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) To claim that a lottery winner who is to receive $1 million per year for twenty years has won $20 million ignores the concept of
   A) deflation.
   B) par value.
   C) discounting the future.
   D) amortizing a loan.
   E) face value.

2) With an interest rate of 6 percent, the present value of $100 next year is approximately
   A) $94.  B) $100.  C) $92.  D) $106.

3) For a simple loan, the simple interest rate equals the
   A) current yield.  B) nominal interest rate.
   C) real interest rate.  D) yield to maturity.

4) If the amount payable in two years is $2420 for a simple loan at 10 percent interest, the loan amount is

5) A coupon bond pays the owner of the bond
   A) the face value at the maturity date.
   B) the same amount every month until maturity date.
   C) a fixed-interest payment every period and repays the face value at the maturity date.
   D) the face value of the bond plus an interest payment once the maturity date has been reached.
   E) none of the above.

6) The price of a consol
   A) equals the coupon payment divided by the interest rate.
   B) equals the coupon payment minus the interest rate.
   C) equals the coupon payment plus the interest rate.
   D) equals the coupon payment times the interest rate.
   E) cannot be determined.
7) When the price of a consol paying $1 annually is $20, the interest rate is
   A) 2 percent.
   B) 20 percent.
   C) 5 percent.
   D) 1 percent.
   E) 4 percent.

8) A $10,000 coupon bond with an $800 coupon payment every year has a coupon rate of
   A) 40 percent.
   B) 4 percent.
   C) 8 percent.
   D) 10 percent.

9) If a $10,000 face-value discount bond maturing in one year is selling for $9,000, then its yield to maturity is
   A) 11 percent.
   B) 9 percent.
   C) 10 percent.
   D) 12 percent.

10) The current yield on a $5,000, 8 percent coupon bond selling for $4,000 is
    A) 20 percent.
    B) 8 percent.
    C) 5 percent.
    D) 10 percent.
    E) none of the above.

11) If the yield on Treasury bills falls from 5.27 percent to 5.22 percent, then the yield has
    A) increased by 0.5 basis point.
    B) decreased by 5 basis points.
    C) decreased by 0.05 basis point.
    D) decreased by 0.5 basis point.
    E) increased by 5 basis points.

12) An equal decrease in all bond interest rates
    A) increases the price of a ten-year bond more than the price of a five-year bond.
    B) decreases the price of a five-year bond more than the price of a ten-year bond.
    C) increases the price of a five-year bond more than the price of a ten-year bond.
    D) increases all bond prices by the same dollar amount.
    E) decreases the price of a ten-year bond more than the price of a five-year bond.
13) Which of the following are true concerning the distinction between interest rates and return?
   A) The return can be expressed as the difference between the current yield and the rate of capital gains.
   B) The rate of return will be greater than the interest rate when the price of the bond falls between time t and time t + 1.
   C) The rate of return on a bond will not necessarily equal the interest rate on that bond.
   D) All of the above are true.
   E) Only A and B of the above are true.

14) The Fisher equation states that
   A) the nominal interest rate equals the real interest rate plus the expected rate of inflation.
   B) the real interest rate equals the nominal interest rate less the expected rate of inflation.
   C) the nominal interest rate equals the real interest rate less the expected rate of inflation.
   D) both A and B of the above are true.
   E) both A and C of the above are true.

15) If the nominal rate of interest is 2 percent, and prices are expected to fall (negative inflation) by 10 percent, the real rate of interest is
   A) 10 percent.
   B) 2 percent.
   C) 12 percent.
   D) 8 percent.
   E) ~8 percent.
Answer Key
Testname: PRACTICE_CH4

1) C
2) A
3) D
4) A
5) C
6) A
7) C
8) C
9) A
10) D
11) B
12) A
13) C
14) D
15) C