20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **A bond's price equals the present value of all its future cash flows discounted at the yield to maturity (YTM).**
   This present-value relationship is the foundation formula tested throughout CAIIB ABFM bond questions.

2. **Bond prices and market interest rates move in opposite directions.**
   Rising market rates push existing bond prices down because YTM sits in the denominator of the pricing formula.

3. **When coupon rate is higher than YTM, the bond trades at a premium, above its face value.**
   Investors pay extra for a bond whose coupon income beats what the market currently offers.

4. **When coupon rate is lower than YTM, the bond trades at a discount, below its face value.**
   Investors demand a lower price when a bond's coupon income falls short of the market yield.

5. **When coupon rate equals YTM, the bond trades at par, at its face value.**
   At par, the fixed coupon income exactly matches the return the market currently demands.

6 **YTM is the total annual return earned if a bond is bought at its current price and held to maturity.**
YTM assumes every coupon is reinvested at the same rate until the bond matures.

7 **The coupon rate is fixed at issue, while YTM is the market-driven return demanded on the bond today.**
This distinction is one of the most frequently tested concepts in the CAIIB ABFM syllabus.

8 **For semi-annual coupon bonds, halve the coupon, halve the YTM, and double the number of periods.**
This adjustment lets candidates reuse the same annual valuation formula for semi-annual bonds.

9 **The core bond valuation formula discounts each coupon plus the final face value back to today using YTM.**
Learning this formula once converts every CAIIB ABFM bond problem into a plug-and-play calculation.

10 **The annual coupon payment C equals the bond's face value multiplied by its coupon rate.**
For example, an 8 percent coupon on a Rs 1,000 face value bond gives an annual coupon of Rs 80.

11 **CAIIB ABFM bond questions are either YTM given and find price, or price given and find YTM.**
Recognising which variable is missing is the first step to choosing the right solution method.

12 **Finding YTM from a given bond price requires trial-and-error since it has no direct algebraic solution.**
Candidates use the golden premium-discount rule to guess whether YTM starts above or below the coupon.

13 **Most Indian government securities pay coupons semi-annually rather than annually.**
This makes semi-annual valuation questions a regular feature of the CAIIB ABFM paper.

14 **Floating-rate bonds have coupons linked to a benchmark such as the repo rate or MIBOR.**
Because coupons reset with the benchmark, their income adjusts as market rates change.

15 **Floating-rate bonds have lower price sensitivity to interest rate changes than fixed-rate bonds.**
Their coupons adjust with the market, so their prices vary less when rates move.

16 **Credit spread is the extra yield a corporate bond offers over a sovereign bond of similar maturity.**
Sovereign bonds carry lower credit risk than corporate bonds, so they earn a smaller credit spread.

17 **The clean price is a bond's quoted price, while the dirty price includes accrued interest.**
Accrued interest builds up between coupon dates and belongs to the seller at the time of sale.

18 **Dirty Price equals Clean Price plus Accrued Interest.**
This formula shows exactly what a buyer pays when purchasing a bond between coupon dates.

19 **Bonds with longer maturities and lower coupons are generally more sensitive to interest rate changes.**
Duration concepts explain why maturity and coupon size affect a bond's interest-rate sensitivity.

20 **Current yield equals the annual coupon payment divided by the bond's current market price.**
Current yield differs from YTM because it ignores the time value of money and any capital gain or loss.