20 True or False

Decide, then check the answer and reason below each statement.

Question 1

Bond prices and market interest rates move in opposite directions.

TRUE

When market rates rise, bond prices fall, and when rates fall, bond prices rise.

Question 2

Bond prices move in the same direction as market interest rates.

FALSE

Bond prices and interest rates are inversely related, not directly related.

Question 3

A bond trades at a premium when its coupon rate is higher than its YTM.

TRUE

Investors pay more than face value for above-market coupon income.

Question 4

A bond trades at a premium when its coupon rate is lower than its YTM.

FALSE

A coupon rate below YTM makes a bond trade at a discount, not a premium.

Question 5

YTM equals the coupon rate only when a bond trades exactly at par.

TRUE

At par, the fixed coupon and the market-demanded return are identical.

Question 6

The coupon rate and YTM are always the same value for any bond.

FALSE

The coupon rate is fixed at issue while YTM moves with the bond's market price.

Question 7

For semi-annual coupon bonds, the number of valuation periods is doubled.

TRUE

Semi-annual valuation doubles the periods while halving both the coupon and the YTM.

Question 8

For semi-annual coupon bonds, the number of valuation periods is halved.

FALSE

Semi-annual bonds double the periods, not halve them, since coupons come twice a year.

Question 9

Most Indian government securities pay coupons semi-annually.

TRUE

Semi-annual coupon payment is the standard convention for Indian government securities.

Question 10

Yield to maturity can always be solved directly using simple algebra.

FALSE

YTM has no direct algebraic solution and is typically found by trial-and-error.

Question 11

Floating-rate bonds have coupons linked to a benchmark such as the repo rate or MIBOR.

TRUE

These bonds reset their coupon periodically based on a reference benchmark rate.

Question 12

Floating-rate bonds are generally more price-sensitive to interest rate changes than fixed-rate bonds.

FALSE

Floating-rate bonds have lower price sensitivity because their coupons reset with the market.

Question 13

The dirty price of a bond includes accrued interest, while the clean price does not.

TRUE

Dirty price equals the clean quoted price plus interest accrued since the last coupon date.

Question 14

The clean price and dirty price of a bond are always identical.

FALSE

They differ by the accrued interest earned since the last coupon payment date.

Question 15

A sovereign government bond typically yields less than a corporate bond of similar maturity.

TRUE

Corporate bonds carry higher credit risk, so they must offer a higher yield or credit spread.

Question 16

A corporate bond always yields less than a sovereign bond of the same maturity.

FALSE

Corporate bonds carry more credit risk than sovereign bonds, so they typically yield more.

Question 17

Bonds with longer maturities and lower coupons tend to be more sensitive to interest rate changes.

TRUE

Duration analysis shows longer maturity and lower coupons increase interest-rate sensitivity.

Question 18

Bonds with shorter maturities and higher coupons are more sensitive to interest rate changes.

FALSE

It is longer maturity and lower coupons, not shorter maturity and higher coupons, that raise sensitivity.

Question 19

A bond's price is the present value of its future coupon payments and face value.

TRUE

Every future cash flow is discounted back to today using the yield to maturity.

Question 20

A bond's price is calculated without any regard to its future cash flows.

FALSE

Bond valuation is entirely based on discounting the bond's future cash flows to the present.