20 True or False

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

Question 1

Bond prices and bond yields generally move in opposite directions.

TRUE

This inverse price-yield relationship is described as the most tested concept in IIBF TIRM.

Question 2

When interest rates rise, existing lower-rate bond prices tend to fall.

TRUE

New bonds issued at higher rates make existing lower-rate bonds less attractive, pushing their prices down.

Question 3

A bondholder is legally an owner of the issuing company, just like a shareholder.

FALSE

A bondholder is a lender or creditor to the issuer, while a shareholder is an owner.

Question 4

Government securities (G-Secs) are considered to carry almost zero credit risk due to sovereign backing.

TRUE

This is why G-Secs are regarded as among the safest fixed income investments.

Question 5

Treasury Bills (T-Bills) pay a separate periodic coupon in addition to their discount pricing.

FALSE

T-Bills are issued at a discount and redeemed at face value, with no separate coupon.

Question 6

Commercial Papers (CPs) are long-term secured bonds issued by government entities.

FALSE

CPs are short-term, unsecured promissory notes issued by highly rated corporates.

Question 7

Certificates of Deposit (CDs) are short-term negotiable instruments issued by banks and financial institutions.

TRUE

CDs fall under money market instruments alongside T-Bills and CPs.

Question 8

A repurchase agreement (repo) is effectively a collateralised short-term loan.

TRUE

One party sells securities and agrees to buy them back later at a higher price.

Question 9

Yield to Maturity (YTM) accounts for all coupons and the price paid if a bond is held until maturity.

TRUE

YTM is described as the most important yield measure in the TIRM syllabus.

Question 10

Duration measures a bond's credit rating rather than its interest-rate sensitivity.

FALSE

Duration measures how sensitive a bond's price is to changes in interest rates, not its credit rating.

Question 11

Interest rate risk in a bond portfolio can be managed using duration analysis and hedging.

TRUE

These are standard tools treasuries use to control exposure to rate changes.

Question 12

Credit risk refers to the risk that the bond issuer defaults on interest or principal payments.

TRUE

It is managed by checking credit ratings and diversifying across issuers.

Question 13

G-Secs are described as generally less liquid than most corporate bonds.

FALSE

G-Secs are described as highly liquid, while many corporate bonds are comparatively less liquid.

Question 14

Reinvestment risk arises when coupon payments must be reinvested at a lower rate than the original yield.

TRUE

This is one of the core risks a fixed income portfolio faces over time.

Question 15

Diversification across issuers, sectors, and maturities helps reduce concentration risk in a bond portfolio.

TRUE

This is one of the standard risk-management tools treasuries use.

Question 16

Treasuries are advised to lengthen bond duration when interest rates are expected to rise.

FALSE

The recommended approach is to shorten duration when rates are expected to rise, and lengthen it when rates are expected to fall.

Question 17

The coupon rate is the fixed annual interest stated on a bond as a percentage of face value.

TRUE

This differs from current yield and YTM, which reflect market price and holding period returns.

Question 18

Current yield is calculated by dividing the bond's face value by its coupon rate.

FALSE

Current yield is actually the annual coupon divided by the current market price of the bond.

Question 19

In the event of issuer default, bondholders are generally paid before shareholders.

TRUE

Shareholders hold a residual claim and are paid last, making equity generally riskier than debt.

Question 20

State Development Loans (SDLs) are bonds issued by private corporations rather than state governments.

FALSE

SDLs are bonds issued by state governments to fund their budgets.