Chapter 4
Understanding Interest Rates

4.1 Measuring Interest Rates

1) The concept of _______ is based on the common-sense notion that a dollar paid to you in the future is less valuable to you than a dollar today.
   A) present value
   B) future value
   C) interest
   D) deflation

   Answer: A
   Ques Status: Previous Edition

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

   Answer: C
   Ques Status: Previous Edition

3) The present value of an expected future payment _______ as the interest rate increases.
   A) falls
   B) rises
   C) is constant
   D) is unaffected

   Answer: A
   Ques Status: New

4) If a security pays $55 in one year and $133 in three years, its present value is $150 if the interest rate is
   A) 5 percent.
   B) 10 percent.
   C) 12.5 percent.
   D) 15 percent.

   Answer: B
   Ques Status: Revised
5) An increase in the time to the promised future payment _______ the present value of the payment.
   A) decreases
   B) increases
   C) has no effect on
   D) is irrelevant to
   Answer: A
   Ques Status: New

6) 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) face value.
   B) par value.
   C) deflation.
   D) discounting the future.
   Answer: D
   Ques Status: Revised

7) The interest rate that equates the present value of payments received from a debt instrument with its value today is the
   A) simple interest rate.
   B) current yield.
   C) yield to maturity.
   D) real interest rate.
   Answer: C
   Ques Status: Revised

8) Economists consider the _______ to be the most accurate measure of interest rates.
   A) simple interest rate.
   B) current yield.
   C) yield to maturity.
   D) real interest rate.
   Answer: C
   Ques Status: Revised
9) If a security pays $110 next year and $121 the year after that, what is its yield to maturity if it sells for $200?
   
   A) 9 percent
   B) 10 percent
   C) 11 percent
   D) 12 percent

   Answer: B
   
   Ques Status: Previous Edition

10) A credit market instrument that provides the borrower with an amount of funds that must be repaid at the maturity date along with an interest payment is known as a

   A) simple loan.
   B) fixed-payment loan.
   C) coupon bond.
   D) discount bond.

   Answer: A
   
   Ques Status: Previous Edition

11) For simple loans, the simple interest rate is ______ the yield to maturity.

   A) greater than
   B) less than
   C) equal to
   D) not comparable to

   Answer: C
   
   Ques Status: Previous Edition

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

   A) $1000.
   B) $1210.
   C) $2000.
   D) $2200.

   Answer: C
   
   Ques Status: Revised
13) For a 3-year simple loan of $10,000 at 10 percent, the amount to be repaid is
   A) $10,030.
   B) $10,300.
   C) $13,000.
   D) $13,310.

   Answer: D
   Ques Status: Revised

14) If $22,050 is the amount payable in two years for a $20,000 simple loan made today, the interest rate is
   A) 5 percent.
   B) 10 percent.
   C) 22 percent.
   D) 25 percent.

   Answer: A
   Ques Status: Revised

15) A credit market instrument that requires the borrower to make the same payment every period until the maturity date is known as
   A) simple loan.
   B) fixed-payment loan.
   C) coupon bond.
   D) discount bond.

   Answer: B
   Ques Status: Previous Edition

16) Which of the following are true of fixed payment loans?
   A) The borrower repays both the principal and interest at the maturity date.
   B) Installment loans and mortgages are frequently of the fixed payment type.
   C) The borrower pays interest periodically and the principal at the maturity date.
   D) Commercial loans to businesses are often of this type.

   Answer: B
   Ques Status: Revised
17) A fully amortized loan is another name for
   A) a simple loan.
   B) a fixed-payment loan.
   C) a commercial loan.
   D) an unsecured loan.

   Answer: B
   Ques Status: Previous Edition

18) A credit market instrument that pays the owner a fixed coupon payment every year until the maturity date and then repays the face value is called a
   A) simple loan.
   B) fixed-payment loan.
   C) coupon bond.
   D) discount bond.

   Answer: C
   Ques Status: Previous Edition

19) A _______ pays the owner a fixed coupon payment every year until the maturity date, when the _______ value is repaid.
   A) coupon bond; discount
   B) discount bond; discount
   C) coupon bond; face
   D) discount bond; face

   Answer: C
   Ques Status: Previous Edition

20) The _______ is the final amount that will be paid to the holder of a coupon bond.
   A) discount value
   B) coupon value
   C) face value
   D) present value

   Answer: C
   Ques Status: New
21) All of the following are examples of coupon bonds except
   A) Corporate bonds
   B) U.S. Treasury bills
   C) U.S. Treasury notes
   D) U.S. Treasury bonds

   Answer: B
   Ques Status: New

22) Which of the following are true for a coupon bond?
   A) When the coupon bond is priced at its face value, the yield to maturity equals the coupon rate.
   B) The price of a coupon bond and the yield to maturity are positively related.
   C) The yield to maturity is greater than the coupon rate when the bond price is above the par value.
   D) The yield is less than the coupon rate when the bond price is below the par value.

   Answer: A
   Ques Status: Revised

23) If a $5,000 coupon bond has a coupon rate of 13 percent, then the coupon payment every year is
   A) $650.
   B) $1,300.
   C) $130.
   D) $13.

   Answer: A
   Ques Status: Revised

24) An $8,000 coupon bond with a $400 coupon payment every year has a coupon rate of
   A) 5 percent.
   B) 8 percent.
   C) 10 percent.
   D) 40 percent.

   Answer: A
   Ques Status: Previous Edition
25) The price of a coupon bond and the yield to maturity are _______ related; that is, as the yield to maturity _______, the price of the bond _______.
   A) positively; rises; rises
   B) negatively; falls; falls
   C) positively; rises; falls
   D) negatively; rises; falls
   Answer: D
   Ques Status: New

26) A $10,000 8 percent coupon bond that sells for $10,000 has a yield to maturity of
   A) 8 percent.
   B) 10 percent.
   C) 12 percent.
   D) 14 percent.
   Answer: A
   Ques Status: Previous Edition

27) Which of the following $1,000 face-value securities has the highest yield to maturity?
   A) A 5 percent coupon bond selling for $1,000
   B) A 10 percent coupon bond selling for $1,000
   C) A 12 percent coupon bond selling for $1,000
   D) A 12 percent coupon bond selling for $1,100
   Answer: C
   Ques Status: Previous Edition

28) Which of the following $1,000 face-value securities has the highest yield to maturity?
   A) A 5 percent coupon bond with a price of $600
   B) A 5 percent coupon bond with a price of $800
   C) A 5 percent coupon bond with a price of $1,000
   D) A 5 percent coupon bond with a price of $1,200
   Answer: A
   Ques Status: Revised
29) Which of the following $1,000 face-value securities has the lowest yield to maturity?

A) A 5 percent coupon bond selling for $1,000
B) A 10 percent coupon bond selling for $1,000
C) A 15 percent coupon bond selling for $1,000
D) A 15 percent coupon bond selling for $900

Answer: A

Ques Status: Previous Edition

30) Which of the following $5,000 face-value securities has the highest to maturity?

A) A 6 percent coupon bond selling for $5,000
B) A 6 percent coupon bond selling for $5,500
C) A 10 percent coupon bond selling for $5,000
D) A 12 percent coupon bond selling for $4,500

Answer: D

Ques Status: Revised

31) The yield to maturity is ________ than the ________ rate when the bond price is ________ its face value.

A) greater; coupon; above
B) greater; coupon; below
C) greater; perpetuity; above
D) less; perpetuity; below

Answer: B

Ques Status: New

32) Which of the following bonds would you prefer to be buying?

A) A $10,000 face-value security with a 10 percent coupon selling for $9,000
B) A $10,000 face-value security with a 7 percent coupon selling for $10,000
C) A $10,000 face-value security with a 9 percent coupon selling for $10,000
D) A $10,000 face-value security with a 10 percent coupon selling for $10,000

Answer: A

Ques Status: Revised
33) The price of a consol equals the coupon payment

   A) times the interest rate.
   B) plus the interest rate.
   C) minus the interest rate.
   D) divided by the interest rate.

   Answer: D
   Ques Status: Revised

34) The interest rate on a consol equals the

   A) price times the coupon payment.
   B) price divided by the coupon payment.
   C) coupon payment plus the price.
   D) coupon payment divided by the price.

   Answer: D
   Ques Status: Revised

35) A consol paying $20 annually when the interest rate is 5 percent has a price of

   A) $100.
   B) $200.
   C) $400.
   D) $800.

   Answer: C
   Ques Status: Revised

36) If a consol has a price of $500 and an annual interest payment of $25, the interest rate is

   A) 2.5 percent.
   B) 5 percent.
   C) 7.5 percent.
   D) 10 percent.

   Answer: B
   Ques Status: Revised
37) A bond that is bought at a price below its face value and the face value is repaid at a maturity date is called a
   A) simple loan.
   B) fixed-payment loan.
   C) coupon bond.
   D) discount bond.

   Answer: D

38) A _______ is bought at a price below its face value, and the _______ value is repaid at the maturity date.
   A) coupon bond; discount
   B) discount bond; discount
   C) coupon bond; face
   D) discount bond; face

   Answer: D

39) A discount bond
   A) pays the bondholder a fixed amount every period and the face value at maturity.
   B) pays the bondholder the face value at maturity.
   C) pays all interest and the face value at maturity.
   D) pays the face value at maturity plus any capital gain.

   Answer: B

40) Examples of discount bonds include
   A) U.S. Treasury bills.
   B) corporate bonds.
   C) U.S. Treasury notes.
   D) municipal bonds.

   Answer: A
41) The yield to maturity for a one-year discount bond equals the increase in price over the year, divided by the
   A) initial price.
   B) face value.
   C) interest rate.
   D) coupon rate.
Answer: A
Ques Status: Revised

42) Which of the following are true for discount bonds?
   A) A discount bond is bought at par.
   B) The purchaser receives the face value of the bond at the maturity date.
   C) U.S. Treasury bonds and notes are examples of discount bonds.
   D) The purchaser receives the par value at maturity plus any capital gains.
Answer: B
Ques Status: Revised

43) If a $10,000 face-value discount bond maturing in one year is selling for $5,000, then its yield to maturity is
   A) 5 percent.
   B) 10 percent.
   C) 50 percent.
   D) 100 percent.
Answer: D
Ques Status: Previous Edition

44) If a $5,000 face-value discount bond maturing in one year is selling for $5,000, then its yield to maturity is
   A) 0 percent.
   B) 5 percent.
   C) 10 percent.
   D) 20 percent.
Answer: A
Ques Status: Previous Edition
45) A discount bond selling for $15,000 with a face value of $20,000 in one year has a yield to maturity of
   A) 3 percent.
   B) 20 percent.
   C) 25 percent.
   D) 33.3 percent.

   Answer: D
   Ques Status: Revised

46) In Japan in 1998, interest rates were negative for a short period of time because investors found it convenient to hold six-month bills as a store of value because
   A) of the high inflation rate.
   B) these bills sold at a discount from face value.
   C) the bills were denominated in small amounts and could be stored electronically.
   D) the bills were denominated in large amounts and could be stored electronically.

   Answer: D
   Ques Status: Revised

47) If the interest rate is 5%, what is the present value of a security that pays you $1,050 next year and $1,102.50 two years from now? If this security sold for $2200, is the yield to maturity greater or less than 5%? Why?

   Answer: 
   \[ PV = \frac{1,050}{1 + 0.05} + \frac{1,102.50}{(1 + 0.5)^2} \]
   \[ PV = $2,000 \]
   If this security sold for $2200, the yield to maturity is less than 5%. The lower the interest rate the higher the present value.
   Ques Status: New

4.2 Yield on a Discount Basis

1) Dealers in U.S. Treasury securities always refer to prices by quoting the
   A) yield to maturity.
   B) coupon rate.
   C) current yield
   D) yield on a discount basis.

   Answer: D
   Ques Status: Previous Edition
2) Which of the following are true of the yield on a discount basis as a measure of the interest rate?

A) It uses the percentage gain on the purchase price of the security, rather than the percentage gain on the face value of the security.
B) It puts the yield on the annual basis of a 360-day year.
C) It ignores the time to maturity.
D) It overstates the yield to maturity.

Answer: B

3) A problem with the yield on discount basis is that it ______ the yield to maturity, and this ______ increases, the ______ the maturity of the discount bond.

A) understates; understatement; longer
B) understates; understatement; shorter
C) overstates; overstatement; longer
D) overstates; overstatement; shorter

Answer: A

4) Dealers in T-bills make profits by selling T-bills at a ______ price than they pay for them, thus, the ______ discount yield should be lower than the ______ discount yield.

A) higher; bid; asked
B) higher; asked; bid
C) lower; bid; asked
D) lower; asked; bid

Answer: B

5) The yield on a discount basis of a 90-day, $1,000 Treasury bill selling for $950 is

A) 5 percent.
B) 10 percent.
C) 15 percent.
D) 20 percent.

Answer: D
6) The yield on a discount basis of a 180-day $1,000 Treasury bill selling for $900 is
   A) 10 percent.
   B) 20 percent.
   C) 25 percent.
   D) 40 percent.
   Answer: B
   Ques Status: Previous Edition

7) The yield to maturity on a $10,000 Treasury bill selling for $9,800 with 73 days to maturity is approximately
   A) 2 percent.
   B) 5 percent.
   C) 10 percent.
   D) 20 percent.
   Answer: C
   Ques Status: Revised

8) When referring to changes in yields, a basis point equals
   A) 10 percent.
   B) 1 percent.
   C) 0.1 percent.
   D) 0.01 percent.
   Answer: D
   Ques Status: Revised

9) To say that a yield increased by twenty basis points means the interest rate increased by
   A) 20 percent.
   B) 2 percent.
   C) 0.2 percent.
   D) 0.02 percent.
   Answer: C
   Ques Status: Revised
10) If the yield on Treasury bills falls from 5.27 percent to 5.22 percent, then the yield has
   A) increased by 5 basis points.
   B) increased by 0.5 basis point.
   C) decreased by 0.5 basis point.
   D) decreased by 5 basis points.
   Answer: D
   Ques Status: Revised

11) If the yield on Treasury bills increases from 6.34 percent to 6.44 percent, the yield has
   A) increased by 0.01 basis point.
   B) increased by 0.1 basis point.
   C) increased by 1 basis point.
   D) increased by 10 basis points.
   Answer: D
   Ques Status: Revised

12) You are considering alternative quotes, a one-year Treasury note with a yield to maturity of
   4.5% and a one-year Treasury bill with a yield on a discount basis of 4.5%. Would these be
   equivalent? Why or why not?
   Answer: No, these are not the same. The yield on a discount basis always understates true yield
   so the yield to maturity on the one-year Treasury bill is higher than the quoted value.
   Ques Status: New

4.3 The Distinction Between Interest Rates and Returns

1) The _______ is defined as the payments to the owner plus the change in a security's value
   expressed as a fraction of the security's purchase price.
   A) yield to maturity
   B) current yield
   C) rate of return
   D) yield rate
   Answer: C
   Ques Status: New
2) What is the return on a 5 percent coupon bond that initially sells for $1,000 and sells for $1,200 next year?
   A) 5 percent
   B) 10 percent
   C) -5 percent
   D) 25 percent
   Answer: D
   Ques Status: Revised

3) What is the return on a 5 percent coupon bond that initially sells for $1,000 and sells for $900 next year?
   A) 5 percent
   B) 10 percent
   C) -5 percent
   D) -10 percent
   Answer: C
   Ques Status: Revised

4) The return on a 5 percent coupon bond that initially sells for $1,000 and sells for $950 next year is
   A) -10 percent.
   B) -5 percent.
   C) 0 percent.
   D) 5 percent.
   Answer: C
   Ques Status: Previous Edition

5) Suppose you are holding a 5 percent coupon bond maturing in one year with a yield to maturity of 15 percent. If the interest rate on one-year bonds rises from 15 percent to 20 percent over the course of the year, what is the yearly return on the bond you are holding?
   A) 5 percent
   B) 10 percent
   C) 15 percent
   D) 20 percent
   Answer: C
   Ques Status: Previous Edition
6) If the interest rates on all bonds rise from 5 to 6 percent over the course of the year, which bond would you prefer to have been holding?
   A) A bond with one year to maturity
   B) A bond with five years to maturity
   C) A bond with ten years to maturity
   D) A bond with twenty years to maturity
   Answer: A
   Ques Status: Previous Edition

7) An equal decrease in all bond interest rates
   A) increases the price of a five-year bond more than the price of a ten-year bond.
   B) increases the price of a ten-year bond more than the price of a five-year bond.
   C) decreases the price of a five-year bond more than the price of a ten-year bond.
   D) decreases the price of a ten-year bond more than the price of a five-year bond.
   Answer: B
   Ques Status: Revised

8) An equal increase in all bond interest rates
   A) increases the return to all bond maturities by an equal amount.
   B) decreases the return to all bond maturities by an equal amount.
   C) has no effect on the returns to bonds.
   D) decreases long-term bond returns more than short-term bond returns.
   Answer: D
   Ques Status: Previous Edition

9) Which of the following are true concerning the distinction between interest rates and returns?
   A) The rate of return on a bond will not necessarily equal the interest rate on that bond.
   B) The return can be expressed as the difference between the current yield and the rate of capital gains.
   C) 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.
   D) The return can be expressed as the sum of the discount yield and the rate of capital gains.
   Answer: A
   Ques Status: Previous Edition
10) Which of the following are generally true of bonds?

A) The only bond whose return equals the initial yield to maturity is one whose time to maturity is the same as the holding period.

B) A rise in interest rates is associated with a fall in bond prices, resulting in capital gains on bonds whose terms to maturity are longer than the holding periods.

C) The longer a bond's maturity, the smaller is the size of the price change associated with an interest rate change.

D) Prices and returns for short-term bonds are more volatile than those for longer-term bonds.

Answer: A

Ques Status: Revised

11) Which of the following are generally true of all bonds?

A) The longer a bond's maturity, the greater is the rate of return that occurs as a result of the increase in the interest rate.

B) Even though a bond has a substantial initial interest rate, its return can turn out to be negative if interest rates rise.

C) Prices and returns for short-term bonds are more volatile than those for longer term bonds.

D) A fall in interest rates results in capital losses for bonds whose terms to maturity are longer than the holding period.

Answer: B

Ques Status: Revised

12) The riskiness of an asset's returns due to changes in interest rates is

A) exchange-rate risk.

B) price risk.

C) asset risk.

D) interest-rate risk.

Answer: D

Ques Status: Revised

13) Interest-rate risk is the riskiness of an asset's returns due to

A) interest-rate changes.

B) changes in the coupon rate.

C) default of the borrower.

D) changes in the asset's maturity.

Answer: A

Ques Status: Revised
14) Prices and returns for _______ bonds are more volatile than those for _______ bonds, everything else held constant.  
   A) long-term; long-term  
   B) long-term; short-term  
   C) short-term; long-term  
   D) short-term; short-term  
   Answer: B  
   Ques Status: Previous Edition  

15) Your favorite uncle advises you to purchase long-term bonds because their interest rate is 10%. Should you follow his advice?  
   Answer: It depends on where you think interest rates are headed in the future. If you think interest rates will be going up, you should not follow your uncle's advice because you would then have to discount your bond if you needed to sell it before the maturity date. Long-term bonds have a greater interest-rate risk. 
   Ques Status: New  

4.4 The Distinction Between Real and Nominal Interest Rates  

1) The _______ states that the nominal interest rate equals the real interest rate plus the expected rate of inflation.  
   A) Fisher equation  
   B) Keynesian equation  
   C) Monetarist equation  
   D) Marshall equation  
   Answer: A  
   Ques Status: Previous Edition  

2) The nominal interest rate minus the expected rate of inflation  
   A) defines the real interest rate.  
   B) is a less accurate measure of the incentives to borrow and lend than is the nominal interest rate.  
   C) is a less accurate indicator of the tightness of credit market conditions than is the nominal interest rate.  
   D) defines the discount rate.  
   Answer: A  
   Ques Status: Previous Edition
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3) The ______ interest rate more accurately reflects the true cost of borrowing.
   A) nominal
   B) real
   C) discount
   D) market
   Answer: B
   Ques Status: New

4) If you expect the inflation rate to be 15 percent next year and a one-year bond has a yield to maturity of 7 percent, then the real interest rate on this bond is
   A) 7 percent.
   B) 22 percent.
   C) ~15 percent.
   D) ~8 percent.
   Answer: D
   Ques Status: Revised

5) When the ______ interest rate is low, there are greater incentives to ______ and fewer incentives to ______.
   A) nominal; lend; borrow
   B) real; lend; borrow
   C) real; borrow; lend
   D) market; lend; borrow
   Answer: C
   Ques Status: New

6) In which of the following situations would you prefer to be the lender?
   A) The interest rate is 9 percent and the expected inflation rate is 7 percent.
   B) The interest rate is 4 percent and the expected inflation rate is 1 percent.
   C) The interest rate is 13 percent and the expected inflation rate is 15 percent.
   D) The interest rate is 25 percent and the expected inflation rate is 50 percent.
   Answer: B
   Ques Status: Previous Edition
7) In which of the following situations would you prefer to be borrowing?
   A) The interest rate is 9 percent and the expected inflation rate is 7 percent.
   B) The interest rate is 4 percent and the expected inflation rate is 1 percent.
   C) The interest rate is 13 percent and the expected inflation rate is 15 percent.
   D) The interest rate is 25 percent and the expected inflation rate is 50 percent.

   Answer: D
   Ques Status: Previous Edition

8) If you expect the inflation rate to be 12 percent next year and a one-year bond has a yield to maturity of 7 percent, then the real interest rate on this bond is
   A) -5 percent.
   B) -2 percent.
   C) 2 percent.
   D) 12 percent.

   Answer: A
   Ques Status: Previous Edition

9) If you expect the inflation rate to be 4 percent next year and a one year bond has a yield to maturity of 7 percent, then the real interest rate on this bond is
   A) -3 percent.
   B) -2 percent.
   C) 3 percent.
   D) 7 percent.

   Answer: C
   Ques Status: Previous Edition

10) If the nominal rate of interest is 2 percent, and the expected inflation rate is -10 percent, the real rate of interest is
    A) 2 percent.
    B) 8 percent.
    C) 10 percent.
    D) 12 percent.

    Answer: D
    Ques Status: Revised
11) The interest rate on Treasury Inflation Protected Securities is a direct measure of
   A) the real interest rate.
   B) the nominal interest rate.
   C) the rate of inflation.
   D) the rate of deflation.

   Answer: A
   Ques Status: Revised

12) Assuming the same coupon rate and maturity length, the difference between the yield on a Treasury Inflation Protected Security and the yield on a nonindexed Treasury security provides insight into
   A) the nominal interest rate.
   B) the real interest rate.
   C) the nominal exchange rate.
   D) the expected inflation rate.

   Answer: D
   Ques Status: Revised

13) Assuming the same coupon rate and maturity length, when the interest rate on a Treasury Inflation Protected Security is 3 percent, and the yield on a nonindexed Treasury bond is 8 percent, the expected rate of inflation is
   A) 3 percent.
   B) 5 percent.
   C) 8 percent.
   D) 11 percent.

   Answer: B
   Ques Status: Revised

14) Would it make sense to buy a house when mortgage rates are 14% and expected inflation is 15%? Explain your answer.

   Answer: Even though the nominal rate for the mortgage appears high, the real cost of borrowing the funds is -1%. Yes, under this circumstance it would be reasonable to make this purchase.
   Ques Status: New
4.5 Web Appendix 1: Measuring Interest-Rate Risk: Duration

1) Duration is
   A) an asset’s term to maturity.
   B) the time until the next interest payment for a coupon bond.
   C) the average lifetime of a debt security’s stream of payments.
   D) the time between interest payments for a coupon bond.

Answer: C
   Ques Status: Revised

2) Comparing a discount bond and a coupon bond with the same maturity,
   A) the coupon bond has the greater effective maturity.
   B) the discount bond has the greater effective maturity.
   C) the effective maturity cannot be calculated for a coupon bond.
   D) the effective maturity cannot be calculated for a discount bond.

Answer: B
   Ques Status: Revised

3) The duration of a coupon bond increases
   A) the longer is the bond’s term to maturity.
   B) when interest rates increase.
   C) the higher the coupon rate on the bond.
   D) the higher the bond price.

Answer: A
   Ques Status: Revised

4) All else equal, the _______ the coupon rate on a bond, the _______ the bond’s duration.
   A) higher; longer
   B) higher; shorter
   C) lower; shorter
   D) greater; longer

Answer: B
   Ques Status: New
5) If a financial institution has 50% of its portfolio in a bond with a five-year duration and 50% of its portfolio in a bond with a seven-year duration, what is the duration of the portfolio?
   A) 12 years
   B) 7 years
   C) 6 years
   D) 5 years
   Answer: C
   Ques Status: New

6) An asset's interest rate risk _______ as the duration of the asset _______.
   A) increases; decreases
   B) decreases; decreases
   C) decreases; increases
   D) remains constant; increases
   Answer: B
   Ques Status: Revised