Question #1 of 8

Question ID: 1574189

Bonds issued by the International Monetary Fund (IMF) are *most accurately* described as:

A) supranational bonds.

B) non-sovereign government bonds.

C) quasi-government bonds.

Explanation

Supranational bonds are issued by multilateral organizations such as the IMF.

Quasi-government bonds are issued by agencies established or sponsored by national government.

Non-sovereign government bonds are issued by state, provincial, and local government or municipal entities.

(Module 53.1, LOS 53.a)

Question #2 of 8

Question ID: 1576048

Relative to the yields on nonsovereign bonds, sovereign bond yields may be lower because of the:

A) requirement to distribute them in an auction format.

B) greater risk associated with their issuers.

C) regulatory requirements, forcing some financial institutions to hold government debt.

Explanation

Some financial institutions may be required to hold government bonds, which can lower their yields relative to nonsovereign debt. Sovereign debt tends to carry less risk than other types of debt (therefore, lower yield), and the requirement to distribute them in an auction format is not a primary cause of the yield differences between sovereign and nonsovereign debt.

(Module 53.1, LOS 53.b)

Question #3 of 8

Question ID: 1577972

In an auction to issue sovereign bonds, the bonds are allocated first to:

A) competitive bidders starting with the highest yield.

B) noncompetitive bidders.

C) competitive bidders starting with the lowest yield.

Explanation

In an auction of sovereign bonds, the bonds are allocated first to noncompetitive bidders, and then to competitive bidders starting with the highest price (lowest yield).

(Module 53.1, LOS 53.b)

Question #4 of 8

Question ID: 1576045

The cutoff yield associated with a government bond issuance is *best* described as the yield of the successful competitive bid with the:

A) lowest price.

B) highest price.

C) median price.

Explanation

The cutoff yield is defined as the yield of the successful competitive bid with the lowest price. All investors will pay the price associated with this yield in a single-price auction, whereas in a multiple-price auction, successful bidders will pay the price they bid.

(Module 53.1, LOS 53.b)

Question #5 of 8

Question ID: 1576458

Fixed income classifications by geography *most likely* include:

A) emerging market bonds.

B) municipal bonds.

C) supranational bonds.

Explanation

Classifying fixed income securities as developed market or emerging market bonds is an example of classification by geography. Supranational bonds are a classification by type of issuer. Municipal bonds are a classification by type of issuer or by taxable status.

(Module 53.1, LOS 53.a)

Question #6 of 8

Question ID: 1576047

The Federal Reserve Bank of the United States will *most likely* work with primary dealers to enact which of the following transactions?

A) Contractionary fiscal policy through the decrease in government spending. ✗

B) Expansionary monetary policy through the purchase of Treasury securities. ✓

C) Expansionary monetary policy through the sale of Treasury securities. ✗

Explanation

The Federal Reserve Bank of the United States enacts monetary (not fiscal) policy. Primary dealers will serve as counterparties for the purchase (expansionary) or sale (contractionary) of Treasury securities for the purpose of enacting monetary policy. Fiscal policy does involve government spending and taxes, but that is not executed by the Federal Reserve Bank.

(Module 53.1, LOS 53.b)

Question #7 of 8

Question ID: 1576044

PD Bank is a primary dealer that submits bids for third parties at public auctions. The bids are *most likely* for the purchase of debt securities issued by:

A) not-for-profit organizations. ✗

B) government entities. ✓

C) corporations. ✗

Explanation

Public auctions are used by sovereign issuers to issue government debt securities, and primary dealers are financial institutions (like PD Bank, in this case) that make competitive bids, submit bids on behalf of third parties, and act as counterparties to the central bank in monetary policy transactions. Corporations and not-for-profits are not using auction formats.

(Module 53.1, LOS 53.b)

Question #8 of 8

Question ID: 1576046

A government entity is using a single-price auction to issue new debt in the hopes of minimizing yield volatility. The price that all investors will pay under this format is associated with the:

A) cutoff yield. ✓

B) highest price offered. ✗

C) average yield to maturity. ✗

Explanation

The cutoff yield is defined as the yield of the successful competitive bid with the lowest price. All investors will pay the price associated with this yield in a single-price auction.

(Module 53.1, LOS 53.b)