## Question #1 of 7

Question ID: 1576506

Compared to corporate bonds with the same credit ratings, municipal general obligation (GO) bonds typically have less credit risk because:

**A)** default rates on GOs are typically lower for same credit ratings. ✓

**B)** GOs are not affected by economic downturns. ✗

**C)** governments can print money to repay debt. ✗

**Explanation**

Municipal bonds usually have lower default rates than corporate bonds of the same credit ratings. GO bonds' creditworthiness is affected by economic downturns. Sovereigns can print money to repay debt, but municipalities cannot.

(Module 63.1, LOS 63.a)

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## Question #2 of 7

Question ID: 1577396

City council of a U.S. municipality has authorized the issuance of $100 million bonds to finance the construction of a toll road. This bond would most likely be characterized as a(n):

**A)** general obligation (GO) bond. ✗

**B)** revenue bond. ✓

**C)** agency bond. ✗

**Explanation**

Revenue bonds are issued by local or regional governments and backed by the revenue (e.g., tolls) of a specific project.

Agency bonds are bonds issued by government agencies. GO bonds are (senior) unsecured bonds backed by unspecific revenues of the issuing government.

(Module 63.1, LOS 63.a)

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## Question #3 of 7

Question ID: 1577400

A credit analyst determines that one of the sovereign governments it recently assessed has a very high interest-to-GDP ratio, while also having low real GDP growth volatility. Based on these two factors only, the analyst would likely conclude that the sovereign government has:

**A)** weak fiscal strength and strong economic growth and stability factors.

**B)** weak fiscal strength and weak economic growth and stability factors.

**C)** strong fiscal strength and weak economic growth and stability factors.

**Explanation**

A very high interest-to-GDP ratio indicates an unfavorable (weak) fiscal strength factor because it implies weaker debt affordability by the sovereign. Low real GDP growth volatility indicates more favorable economic conditions and therefore stronger economic growth and stability factors.

(Module 63.1, LOS 63.a)

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## Question #4 of 7

Question ID: 1576505

Which of the following statements about municipal bonds is *least accurate*?

**A)** A municipal bond guarantee is a form of insurance provided by a third party other than the issuer.

**B)** Bonds with municipal bond guarantees are more liquid in the secondary market and generally have lower required yields.

**C)** Revenue bonds have lower yields than general obligation bonds because they are backed by specific projects.

**Explanation**

General obligation bonds are backed by the full faith, credit, and taxing power of the issuer and thus tend to have lower yields than revenue bonds.

(Module 63.1, LOS 63.a)

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## Question #5 of 7

Question ID: 1577397

Compared to general obligation (GO) bonds, revenue bonds typically:

**A)** are backed by the full faith and credit of the issuing government.

**B)** have higher credit ratings.

**C)** have higher yields.

**Explanation**

Revenue bonds typically have higher credit risk than GO bonds because the only source of revenue for payment on the bonds is the revenue from the projects being financed. As a result, revenue bonds typically have higher yields than GO bonds. Only GO bonds are backed by the full faith and credit of the issuing government.

(Module 63.1, LOS 63.a)

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## Question #6 of 7

Question ID: 1577399

An institutional investor is considering purchasing sovereign government debt, but is worried that in the event the issuing government refused to pay its obligations, it would have no recourse to the government. To evaluate this risk, the investors should assess the sovereign government's:

**A)** fiscal flexibility factors.

**B)** institutions and policy factors.

**C)** monetary effectiveness factors.

**Explanation**

Because the investor would have no recourse to the issuing government, it should evaluate the government's *willingness* to repay its obligations. This assessment is incorporated under institutions and policy factors.

Fiscal flexibility factors (like capacity to collect taxes) and monetary effectiveness factors (like central bank actions) measure the sovereign government's *ability* to repay its obligations.

(Module 63.1, LOS 63.a)

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## Question #7 of 7

Question ID: 1577398

Which of the following statements about municipal general obligation (GO) bonds and revenue bonds is *most accurate*?

**A)** Both GO and revenue bonds are effectively funded by taxpayers.

**B)** Only GO bonds are effectively funded by taxpayers.

**C)** Only revenue bonds are effectively funded by taxpayers.

**Explanation**

GO bonds are supported by the full taxing power of the issuing government. In other words, GO bonds are effectively funded by taxpayers (individual and corporate). In contrast, revenue bonds are only backed by revenues from the specific projects funded by these bonds (for example, tolls from a toll road or bridge).

(Module 63.1, LOS 63.a)