Revision

Choose the correct option to complete the sentence.

1. A bond with a yield higher than the market average is often considered:
   a) Risk-free
   b) Riskier
   c) Tax-deductible
2. An investor sells a **call option** when they:
   a) Expect the price to rise
   b) Expect the price to fall
   c) Want to lock in a fixed interest rate
3. A bondholder who owns a bond trading **below par**:
   a) Gains if the bond value increases to face value
   b) Always earns a higher coupon rate
   c) Is exempt from taxes
4. The right to buy or sell a security at a predetermined price is associated with:
   a) Tax deductions
   b) Exercise options
   c) Commodities
5. A **hedge** is a strategy to:
   a) Maximize gains
   b) Minimize losses
   c) Lock in equity financing
6. The **premium** on an option represents:
   a) The price paid for the option
   b) The underlying asset's price
   c) The time to maturity
7. **Equity financing** means raising capital by:
   a) Issuing shares of stock
   b) Borrowing funds
   c) Selling derivatives
8. An **interest rate swap** is used when two parties:
   a) Want to exchange interest payments
   b) Need to buy or sell commodities
   c) Trade foreign currencies
9. **Commodities** can include:
   a) Physical goods like gold, oil, and wheat
   b) Only stocks and shares
   c) Derivative instruments like options
10. **Maturity date** refers to:
    a) The date when interest payments are made
    b) The date when the principal must be repaid
    c) The date when an option expires
11. **Floating rate** bonds:
    a) Have a fixed interest rate
    b) Have an interest rate that changes based on market conditions
    c) Cannot be traded on secondary markets
12. A bond trading **above par** means it:
    a) Is priced lower than its face value
    b) Has a higher yield than the market average
    c) Is priced higher than its face value

Identify the word that doesn't belong in the group.

1. Call option, Put option, Premium, Underwrite
2. Below par, Above par, Yield, Floating rate
3. Exercise options, Hedging, Coupon, Spread
4. Commodities, Equity financing, Volatility, Tax deductible
5. Interest rate swap, Secondary market, Default, Floating rate
6. Spread, Principal, Maturity date, Coupon
7. Volatility, Tax deductible, Yield, Underwrite
8. Hedge, Default, Equity financing, Spread
9. Secondary market, Floating rate, Exercise options, Coupon
10. Yield, Principal, Maturity date, Tax deductible
11. Premium, Spread, Call option, Underwrite
12. Hedging, Principal, Yield, Maturity date

Each sentence contains one incorrect word or phrase. Identify and replace it.

1. A **put option** allows the holder to buy an asset at a fixed price.
2. The **floating rate** on a bond remains fixed throughout its life.
3. **Equity financing** involves borrowing money from investors in the form of bonds.
4. The **coupon** of a bond refers to the price of the bond on the secondary market.
5. **Volatility** refers to the stability of a company's stock price.
6. A **call option** gives the holder the right to sell an asset at a fixed price.
7. The **principal** on a bond is the amount paid to the bondholder as interest.
8. An **interest rate swap** is a tool used to exchange commodities.
9. The **maturity date** is when an investor sells the bond in the secondary market.
10. Bonds are usually issued with a **tax deductible** option.
11. **Exercise options** give the investor the right to issue shares.
12. **Underwriting** refers to managing the risks of issuing bonds and stocks.