FIN 366: INVESTMENTS
CRITICAL THINKING & CONCEPTUAL QUESTIONS

Chapter 11:

1. What is the definition of *interest rate sensitivity* when it comes to corporate bonds?
2. You predict interest rates are about to fall significantly. Which of the bonds below would you most want to be holding prior to the interest rate change (assuming you want a high capital gain on your bond?)
   a. Low coupon with a long maturity
   b. High coupon with a short maturity
   c. High coupon with a long maturity
   d. Zero coupon with a long maturity
3. Is the decrease in a bond's price as the result of an increase in its YTM *more* or *less* than the increase in a bond's price as a result of a decrease in the YTM of the same magnitude?
4. What would be the duration of a zero-coupon bond? (Hint: try this out with hypothetical values in your calculator.)
5. What would doubling a bond's time to maturity mean for its sensitivity to interest rates?
6. Corporate bonds often yield more than Treasurys. Why?
7. Why do we care to calculate a bond's "effective maturity"? Doesn't the indenture tell us when it matures?
8. Everything else held constant, is a bond's duration higher or lower if its coupons are lower?
9. What is the goal of duration matching? In what instances would it be useful? What firms would find it useful?