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QUESTION 1

The following information pertains to bonds: Further following information is available about a particular bond `Bond F\\'

Bond	Initial Maturity	Spread from G-Sec (bps)		
		January 2013	April 2013	July 2013
Bond A	10 Years	94	97	89
Bond B	10 Years	102	103	93
Bond C	10 Years	370	530	560
Bond D	10 Years	115	130	110
Bond E	10 Years	10	15	7

There is a 10.25% risky bond with a maturity of 2.25% year(s) its current price is INR105.31, which corresponds to YTM of 9.22%. The following are the benchmark YTMs.

Maturity(yrs)	1	2	3	4	5
YTM	8.22	8.52	8.88	8.98	9.02

Assuming the G-Sec has not changed from the time January 2013 to April 2013, what can you predict about the changes bond price and change in issues borrowing rates:

A. Decrease and Increase

B. Increase and Increase

C. Decrease and Decrease

D. Increase and Decrease

Correct Answer: D

QUESTION 2

Satish Dhawan, a veteran fixed income trader is conducting interviews for the post of a junior fixed income trader. He interviewed four candidates Adam, Balkrishnan, Catherine and Deepak and following are the answers to his questions.
Q-1: Tell something about Option Adjusted Spread

Adam: OAS is applicable only to bond which do not have any options attached to it. It is for the plain bonds.

Balkishna: In bonds with embedded options, AS reflects not only the credit risk but also reflects prepayment risk over and above the benchmark.

Catherine: Sincespreads are calculated to know the level of credit risk in the bound, OAS is difference between in the Z spread and price of a call option for a callable bond.

Deepark: For callable bond OAS will be lower than Z Spread.

Q-2: This is a spread that must be added to the benchmark zero rate curve in a parallel shift so that the sum of the risky bond\\'s discounted cash flows equals its current market price. Which Spread I am talking about?

Adam: Z Spread

Balkrishna: Nominal Spread Catherine: Option Adjusted Spread Deepark: Asset Swap Spread

Q-3: What do you know about Interpolated spread and yield spread?

Adam: Yield spread is the difference between the YTM of a risky bond and the YTM of an on-the-run treasury benchmark bond whose maturity is closest, but not identical to that of risky bond. Interpolated spread is the spread between the YTM of risky bond and the YTM of same maturity treasury benchmark, which is interpolated from the two nearest on-the-run treasury securities.

Balkrishna: Interpolated spread is preferred to yield spread because the latter has the maturity mismatch, which leads to error if the yield curve is not flat and the benchmark security changes over time, leading to inconsistency.

Catherine: Interpolated spread takes account the shape of the benchmark yield curve and therefore better than yield spread.

Deepak: Both Interpolated Spread and Yield Spread rely on YTM which suffers from drawbacks and inconsistencies such as the assumption of flat yield curve and reinvestment at YTM itself.

Then Satish gave following information related to the benchmark YTMs:

Maturity(yrs)	1	2	3	4	5
YTM	8.22	8.52	8.88	8.98	9.02

Which of the modified statement of Balkrishna will be a correct statement?

A. In bonds with embedded options, Nominal Spread reflects not only the credit risk but also reflects prepayment risk over and above the benchmark.

B. In bonds with embedded options, spread reflects not only the credit risk but also reflects prepayment risk over and above the benchmark.

C. None of the three.

D. In bonds with embedded options, Z Spread reflects not only the credit risk but also reflects prepayment risk over and above the benchmark.

Correct Answer: A

QUESTION 3

Which of the following is NOT a conceptual definition of credit risk on which credit models are based?

A. Default Mode Paradigm

B. Value-at-Risk paradigm

C. Mark-to-Market Paradigm

Correct Answer: B

Reference: http://www.bulentsenver.com/yeditepe/pdf/Credit%20Risk%20Modelling%20BIS49.pdf (page 9)

QUESTION 4

Which of the following statement is false?

A. DEF Ltd. has received a speculative grade rating as its outstanding rating is B+

B. Non-Convertible debenture of PQR Ltd. has a speculative rating since its outstanding rating is C

C. ABC Ltd. short term is BBB- for its commercial paper

D. XYZ has an investment grade rating as his outstanding rating is A1

Correct Answer: B

QUESTION 5

Under an advance factoring contract, following flow of money takes place:

A: Factor pays a percentage of the invoice face value to the seller at the time of sale

B: The remainder of the purchase price is held by factor until the payment by the account debtor is made.

C:

The cost associated with the transaction is paid upfront by the seller to the factoring agent.

A.

Only B

B.

A, B and C

C.

Only C

D.

Only A and B

Correct Answer: D

Reference: https://www.google.com/url? sa=tandrct=jandq=andesrc=sandsource=webandcd=2andcad=rjaanduact=8andved=2ahUKEwjgyrT_jdzeAhXlAMAKHS5AC ywQFjABegQIBBACandurl=https%3A%2F%2Fwww.ansarbank.com%2FAssets%2FData% 2Fuserfiles%

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