The answer to the question is highlighted in red. Explanations are highlighted in green.

1. If you buy a bond that is selling for greater than its face, or maturity, value what will happen to the price (value) of the bond as the maturity date nears if market interest rates do not change during the life of the bond?
   a. Because interest rates remain constant, nothing happens to the market value of the bond.
   b. The price of the bond should increase even further above the bond’s face value because the rates in the market are too low.
   c. The price of the bond must decrease as the bond gets closer to its maturity because the bond’s value has to equal its face value at maturity.
   d. This question cannot be answered without additional information.
   e. None of the above is a correct answer.

Assuming that the firm is financially healthy, the value of a bond must equal its face (maturity) value at the time of maturity. As a result, if a bond is selling for a premium (discount), the price must decrease (increase) over time until it exactly equals the face value at maturity.

RETURN TO THE SAMPLE QUESTIONS