14. Stephanie just purchased a corporate bond that matures in three years. The bond has a coupon interest rate equal to 9 percent and its yield to maturity is 6 percent. If market conditions do not change—that is market interest rates remain constant—and Stephanie sells the bond in 12 months, what will be her capital gain from holding the bond?

a. Positive; because she bought the bond for a discount, which means its price has to increase as the maturity date nears.

b. Negative; because she bought the bond for a premium, which means its price has to decrease as the maturity date nears.

c. Zero, because she must have bought the bond for par, which means its price will not change as the maturity date nears.

d. This question cannot be answered, because the face (maturity) value of the bond is not given.

e. None of the above is correct.

The bond should be selling for a premium because its coupon rate is greater than its yield to maturity. If interest rates do not change during the year, the price of the bond will decrease because it becomes closer to the bond’s face value as the maturity date approaches.