7. If market interest rates for corporate bonds of similar risk drop from 7 percent to 6 percent, which of the following bonds would sell for a premium?

a. 5 percent coupon bond with 10 years remaining until maturity
b. 6 percent coupon bond with one year remaining until maturity
c. 5 percent coupon bond with one year remaining until maturity
d. 7 percent coupon bond that matures today.
e. 7 percent coupon bond with 10 years remaining until maturity

A bond sells for a premium when its coupon rate of interest is greater than its yield to maturity (YTM). As a result, the bond with a coupon rate of interest that is greater than 6 percent should sell for a premium. The 7 percent coupon bond that matures in 10 years should sell for a premium. The 7 percent coupon bond that matures today should be selling for its face value, which means it should be selling for par, because investors will receive the face value of the bond today—that is, the present value of an amount to be received today is the same as the amount to be received.

RETURN TO THE SAMPLE QUESTIONS