a. What is a discount bond? What will happen to the price of a discount bond as it

approaches maturity?

1. Given **TWO (2)** identical bonds with the same coupon rate but different maturity dates,

the bond with a longer maturity date is said to be more risky than the bond with a shorter

maturity date. Why?

1. A bond is called a **discount bond** when the selling price is lower than its par value.

Theoretically, why do discount bonds exist?

1. An increase in interest rate will result in a fall in bond prices. But the price change

experienced by a bond with low coupon rate will be much more than that of a bond with

high coupon rate. Why is this so?