

- (5-3) The rate of return on a bond held to its maturity date is called the bond's yield to maturity. If interest rates in the economy rise after a bond has been issued, what will happen to the bond's price and to its YTM? Does the length of time to maturity affect the extent to which a given change in interest rates will affect the bond's price? Why or why not?
- (5-4) If you buy a *callable* bond and interest rates decline, will the value of your bond rise by as much as it would have risen if the bond had not been callable? Explain.
- (5-5) A sinking fund can be set up in one of two ways. Discuss the advantages and disadvantages of each procedure from the viewpoint of both the firm and its bondholders.