

20. Correct. The answer is false. Since the rate of return on a bond held a long time is approximately $rr = \text{Coupon}/P$, the price should be $P = \text{Coupon}/rr$. Thus, if a bond pays a coupon of 10 and has a price of 100, its $rr = 10/100 = 0.10$. If the interest rate on a similar bond on the market goes up to 0.11, the rr on your bond is too low compared to the market. Your bond must pay a similar rate or $\text{Coupon}/P = 0.11 = 10/P$. Thus $P = 10/0.11 = \$90.91$. Note using the more accurate formula given in the answers to question 19, will also show a decrease in r will increase bond price.