

CFA® SAMPLE QUESTION – LEVEL I

Fixed Income

Q: Given two bonds that are equivalent in all respects except tax status and both are trading at Par.

The marginal tax rate that will make an investor indifferent between the taxable bond with 8% coupon and a 6.5% percent tax-exempt bond is closet to:

CORRECT ANSWER:

d) 18.75%

For taxable bond, return will be deducted by the applicable taxation amount i.e. $(1-t)$

So we have the below formula

$$8\% (1-t) = 6.5\%$$

Therefore $t = 18.75\%$



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