**Economics for the 21st Century: Bond Market: Work Sheet**

**INSTRUCTIONS: Use your notes to answer the following questions in complete sentences. Any student completing 100% of the worksheet with a score of 93% or better will be exempted from the bond quiz. You must work alone from your notes, and you cannot take the worksheet home – it must be turned in at the end of the period.**

1. What is a bond?
2. Name three types of bonds.
3. EVALUATE the following statement: A U.S. government bond is a great investment because, like an IRA, it is not taxed.
4. The city of Tiffin has issued a bond to help pay for some street repairs. Although the bond is paying a fairly low return, it is still a good bargain in a city with a 2% income tax. Why might that be?
5. What are the various components of a bond?
6. What are seven variables that affect the value of a bond?
7. How can one distinguish between a short-term note, a medium-term note or bond, and a long-term bond?
8. Explain what is meant by a “call” option.
9. How is a “call” option different from a “put” option?
10. What are three components of a bond issuer’s credit rating?
11. Explain the difference between a fixed rate bond and a floating rate bond.
12. How often is the interest on a Payable at Maturity bond compounded?
13. What distinguishes bonds sold at a premium from those sold at a discounted price?
14. What is meant by the term *current yield*?
15. Are bond prices within the marketplace stable? Explain your answer.
16. When interest rates rise, what happens to the price of outstanding bonds? Why?
17. Which has greater risk – a bond that will mature in four years, or a bond that will mature in ten? Explain your answer.
18. What is the connection between rapid economic growth and the decline in the value of a bond?
19. What are two reasons interest rates rise?
20. How does the bond market respond to reports about strong economic growth? Why?
21. What is bond marketability? What must there be for a bond to have high marketability?
22. Examine the bond market table below to answer the question: does it represent a Corporate Exchange Traded bond, a Tax Exempt Municipal bond,, or a U.S. Treasury? How do you know?

BONDS Cur Yld Vol. Close Net Chg

AndSel 7.6 31 57 3/8 + 1/8

BestPref 9.8 7 44 1/8 -1/84