

Week 4 - DQ 3

What is a bond? What are some features of a bond? How do you value bonds? What factors can affect that value?

Response #1 A bond is a debt security that an authorized issuer owes the holders a debt. A bond is somewhat like a loan. Features of a bond are the nominal, principal, or face amount. This is the amount on which the issuer of the bond pays interest and most commonly is paid at the end of the term.

Maturity date is the date on which the issuer has to repay the principal amount. There are three groups of bond maturities: short term, medium term, and long term. Short term matures between 1-5 years, medium between 6-12, and long term is greater than 12 years.

The interest rate that the issuer pays to the bond holder is known as the coupon. This rate is usually fixed throughout the life of the bond.

The quality of the bond issue refers to the probability that the bondholders will receive the amounts promised at the due dates.

Factors such as current market interest rates, length of term and creditworthiness of the issuer of the bond can affect the value.

Response #2 A bond is a promise to pay a sum of money at a designated maturity date, and a periodic interest at a specified rate on the maturity amount or face value. Bonds are evidence by a paper certificate and typically have a \$1,000 face value. Interest payments are usually made semiannually on bonds although the interest rate is generally expressed as an annual rate. The issuing company of bonds must arrange for underwriters that will help market and sell the bonds. Then it must obtain the SEC's approval on the bond issue, undergo audits, and issue a prospectus (a document which describes the features of the bond and related financial information). Finally, the company must generally have the bond certificates printed. The time it takes from when the company establishes the terms of the bond and when it issues the bond can have affect on the value of the bond. Supply and demand can have affect on the value as well. Furthermore, relative risk, market conditions and the state of the economy can have affect on the value of a bond too.

Response #3 A bond is a debt that is considered long term sold to shareholders by the organization. The most important feature of a bond is that it is a loan. Another feature is that they might be issued at par value or face value. The interest and whether it is fixed or can increase or decrease are also features to consider when evaluating bonds.

Bonds are valued at "ratings". When I played Railroad Tycoon and needed to get a bond to help expand my company and lay railing I needed to try to always keep my rating at AAA or

at least BBB, because I may have needed more funding later in the game. If I did not pay back the loan or the interest when it was due affected the of the bonds and the ratings that I was able to obtain in the game.

Response #4 A bond is a type of debt which is given to someone for the purpose of increasing capital. The value of the bonds would depend on how much was the purchase price and how long you will be having the bond and what will be the interest rate per year. Knowing all of the above will determine how much a bond will be worth at the end of its period. Knowing the amount can help people determine if they would like to invest their money in a bond.