

2) The development of the new issue junk bond market had important implications for capital structure choice. The existence of a viable junk bond market means that firms can comfortably maintain higher degrees of leverage than they could prior to the development of this market. Do you agree or disagree? Justify your answer.

Junk bonds allow for firms/companies to have more liquid assets available, I agree that the existence of a viable junk bond market means that firms can comfortably maintain higher degrees of leverage than they could prior to the development of this market.

Americans have a thing for junk.

Stock bonds have doubled in the past three years, and everyday investors keep pulling money out of stocks. But they're happy to lend billions of dollars to companies with deep debts and embarrassing credit scores.

They're doing it through junk bonds, the risky investments made infamous by the disgraced investment banker Michael Milken in the 1980s. Americans have never shoveled so much money into junk bond funds to start a year.

Since the start of January, everyday investors have put \$12 billion into mutual funds that buy high-yield bonds, the polite name for junk. That's more than the \$8.2 billion they invested in all of 2011. The full-year record was \$28 billion in 2009.

Sources:

AP (2012). Average Joes are Playing the Junk Bond Market More than Ever. Retrieved from: http://articles.businessinsider.com/2012-03-23/wall_street/31228709_1_junk-bonds-bond-funds-high-yield-bond