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Chapter 19: Bonds and Mutual Funds

Check Your Answers: Section Assessment

Section 2

Review Key Concepts
1. Annual reports, the Internet, business magazines, and government reports and research.

2. To find the current yield of a bond, divide the dollar amount of annual interest income by its current market value. This calculation lets you compare the yield on a bond investment with the yields of other investment alternatives.

3. In a bond price quotation, the price of a bond is given as a percentage of its face value. To find the current market value for a bond, multiply the face value ($1,000) by the price quotation given in the newspaper. For government bonds, most financial publications include two price quotations: the bid price and the asked price. The bid price is the amount a seller could receive for the bond. The asked price represents the amount a buyer could pay to purchase the bond.

4. Bond ratings are generally categorized from AAA (the highest—the best) to D (the lowest—the worst). Independent rating companies assign to each bond a rating based on the financial stability of its issuer. Bond ratings help investors determine the quality and risk associated with bonds.

Higher Order Thinking
5. Bonds are rated by independent companies. The ratings tell investors how secure their investments are and how likely they are to receive interest and principal repayment. Depending on your risk tolerance and the level of return you want, you will choose bonds ranging from “junk” to “high-grade investment quality.”

21st Century Skills
6. Solve Problems Andrew should multiply $1,000 by 98% to find the current market value of $980.

Mathematics
7. Bond Price and Yield Selling price =$1,000 × (86/100) = $860; Interest earned = $1,000 × 6.75% = $67.50; Current yield = $67.50/$860 = 7.85%