

Chapter 8

Bonds and Their Valuation

LEARNING OBJECTIVES

After reading this chapter, students should be able to:

- List the four main classifications of bonds and differentiate among them.
- Identify the key characteristics common to all bonds.
- Calculate the value of a bond with annual or semiannual interest payments.
- Explain why the market value of an outstanding fixed-rate bond will fall when interest rates rise on new bonds of equal risk, or vice versa.
- Calculate the current yield, the yield to maturity, and/or the yield to call on a bond.
- Differentiate between interest rate risk, reinvestment rate risk, and default risk.
- List major types of corporate bonds and distinguish among them.
- Explain the importance of bond ratings and list some of the criteria used to rate bonds.
- Differentiate among the following terms: Insolvent, liquidation, and reorganization.
- Read and understand the information provided on the bond market page of your newspaper.