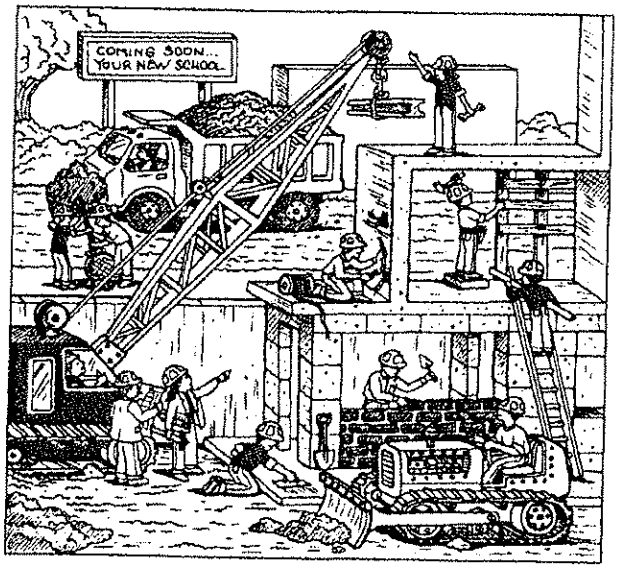
Name _____ Date _____

Corporate and Municipal Bonds

Another form of investment is buying **corporate bonds** or **municipal bonds**. When corporations need to raise large sums of money for such things as factory expansions and when states and cities need money for such things as roads or schools, they issue bonds.



en you buy a bond, you are really lending the corporation or the government your money, based on an agreement that you will be paid interest over the life of the bond and that you will be repaid the full amount when the bond matures.

The face value of a bond, often $1,000, is called the **par value**. The **maturity date** of the bond, often 5 years, 10 years, or 20 years, is when the bond can be redeemed at par value.

However, many investors buy and sell bonds on the bond market before the bonds reach maturity. Bonds are sold on the bond market at the bond's **market price**, which may be higher or lower than the par value.

BONDS

Bond	Maturity Date	Interest rate	Market price
Excelsior Corporation	2021	5.50%	$978
Roadway Company	2016	3.45%	$1,019
State of Ohio	2019	4.50%	$1,025

Name _____ Date _____

Use the bond table on the previous page.

Example 1: At what percent of par are the Excelsior Corporation bonds currently selling?

THINK: $1,000 par value bonds are selling for $978.

Divide to find the percent.
$978 ÷ $1,000 = 0.978 = 97.8%

The bonds are currently selling for 97.8% of par.

Example 2: How much interest would you receive per year if you owned 8 State of Ohio $1,000 bonds?

THINK: Interest is paid on the par value, not on the market price.

Step 1 Multiply to find the interest on 1 bond.

4.50% of $1,000 = 0.0450 × $1,000 = $45

Step 2 Multiply to find the interest on 8 bonds.

8 × $45 = $360

You would earn $360 annually in interest.

Example 3: What is the current yield on a $1,000 Roadway Company bond? Round to the nearest tenth of a percent.

Current Yield = Annual Interest ÷ Market Price

Step 1 Multiply to find the annual interest.

3.45% of $1,000 = 0.0345 × $1,000 = $34.50

Step 2 Divide to find the current yield.

$34.50 ÷ $1,019 ≈ 0.0338 ≈ 3.4%

The current yield is 3.4%

Name _____ Date _____

Think About It

1. How are bonds different from stocks?

_____

_____

_____

2. How are municipal bonds different from corporate bonds?

_____

_____

Practice

Remember to estimate whenever you use your calculator.

BONDS

Bond	Maturity Date	Interest rate	Market price
Chapman International	2019	8.50%	$1,199
...y of Yuma	2025	4.13%	$891
Dover Products	2020	7.75%	$953
Eastern Metals	2021	5.30%	$1,022
Finch Township	2030	5.25%	$1,004

Use the bond listing above. Which bond(s):

1. Has the earliest maturity? _____
2. Is currently the most expensive? _____
3. Has the lowest interest rate? _____
4. Has the highest interest rate? _____
5. Are selling below par? _____
6. Are selling above par? _____

Name _____ Date _____

Use the table on page 97 for problems 7–24.

Find the current cost of the bonds.

7. 4 Dover Products bonds _____
8. 8 Finch Township bonds _____
9. 20 Eastern Metals bonds _____
10. 15 City of Yuma bonds _____

At what percent of par is the $1,000 bond currently selling?

11. Market price: $950 _____
12. Market price: $875 _____
13. Market price: $837.50 _____
14. Market price: $1,500 _____
15. Market price: $1,050 _____
16. Market price: $1,125 _____

Find the annual interest you would earn each year from the bonds.

17. 6 Chapman International $1,000 bonds _____
18. 10 City of Yuma $1,000 bonds _____
19. 30 Eastern Metals $1,000 bonds _____
20. 50 Finch Township $1,000 bonds _____

Find the current yield on the bond to the nearest tenth of a percent.

21. Chapman International _____
22. City of Yuma _____
23. Dover Products _____
24. Finch Township _____

Par

Page 94

Problem Solving Applications

1. $8.23
2. $86.50
3. $57.14
4. $87.06
5. increase
6. increase
7. decrease
8. decrease
9. Nostro
10. Nasco
11. 3 stocks
12. Nostro
13. $9.13 high; $6.85 low
14. $2.28
15. $420
16. no
17. (P) $162

Pages 97-98

Think About It

1. Stocks represent a piece of ownership in a corporation, while bonds represent only a loan to a corporation or government. Stocks pay dividends, while bonds pay interest.
2. Municipal bonds are issued by local governments, while corporate bonds are issued by corporations.

Practice

1. Chapman International
2. Chapman International
3. City of Yuma
4. Chapman International
5. City of Yuma, Dover Products
6. Chapman International, Eastern Metals, Finch Township
7. $3,812
8. $8,032
9. $20,440
10. $13,365
11. 95%
12. 87.5%
13. 83.75%
14. 150%
15. 105%
16. 112.5%
17. $510
18. $413
19. $1,590
20. $2,625
21. 7.1%
22. 4.6%
23. 8.1%
24. 5.2%

Pages 100-102

Think About It

1. Because mutual funds represent a broad array of investments, investing in mutual funds is usually less risky than buying and selling individual stocks and bonds. Their earnings, or yields, are often higher than most individuals would be likely to get by themselves.

Practice

1. $38.12
2. $1,906
3. $9,530
4. $17.18
5. $859
6. $4,295
7. $15.28
8. $764
9. $3,820
10. $24.12
11. $1,206
12. $6,030
13. $4,124
14. $14,340
15. $5,637.50
16. $278
17. $33,154
18. $9,622.50
19. $515.40
20. $3,105.90
21. 509 shares
22. 729 shares
23. 106 shares
24. $832
25. $2,964
26. $16
27. $13.68
28. $684
29. $3,420
30. $16.09
31. $804.50
32. $4,022.50
33. $16.61
34. $830.50
35. $4,152.50
36. $1,846
37. $22,752
38. $663.50
39. $4,983
40. 365 shares
41. $1,117.50

Pages 106-108

Think About It

1. Because pension fund contributions are invested and earn interest, the fund grows as much from investment income as from ongoing employee contributions.
2. Possible answer: An employee with a 401(k) plan may get matching contributions to the plan from his or her employer. With an IRA, an individual does not get employer contributions.
3. Possible answer: If a person will be in a lower tax bracket when retired, he or she might pay less in taxes on withdrawals from a traditional IRA than on contributions made now to a Roth IRA.

Practice

1. 2.00
2. $9,600
3. $800
4. 1.41
5. $7,994.70
6. $666.23
7. 1.89
8. $13,475.70
9. $1,122.98