**Chapter 7 Study guide**

1. Go to <http://cxa.gtm.idmanagedsolutions.com/finra/BondCenter/Default.aspx> , the bond market data website of FINRA to find bond information. For example, find bond sponsored by IBM

Or, just go to [www.finra.org](http://www.finra.org), 🡺 Investor center 🡺 market data 🡺 bond 🡺 corporate bond

***Corporate Bond***

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| |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Issuer Name** | **Callable** | **Coupon** | **Maturity** | **Moody** | **S&P** | **Fitch** | **Price** | **Yield** | | WMT | Yes | 8.8 | 12/30/2014 | Aa2 | AA | n/a | 102 | 6.613 | | WMT | No | 7.55 | 2/15/2030 | Aa2 | AA | AA | 144.652 | 3.7 | | WMT | No | 6.75 | 10/15/2023 | Aa2 | AA | AA | 128.963 | 3.036 | |  |  |  |  |  |  |  |  |  |

1. 2. Understand what is coupon, coupon rate, yield, yield to maturity, market price, par value, maturity, annual bond, semi-annual bond, current yield.
2. 3. Understand how to price bond

Bond price = abs(pv(yield, maturity, coupon, 1000)) – annual coupon

Bond price = abs(pv(yield/2, maturity\*2, coupon/2, 1000)) – semi-annual coupon

Also change the yield and observe the price changes. Summarize the price change pattern and draw a graph to demonstrate your findings.

Again, when yield to maturity of this semi\_annual coupon bond is 3%, how should this WMT bond sell for?

1. Understand how to calculate bond returns

Yield to maturity = rate(maturity, coupon, -market price, 1000) – annual coupon

Yield to maturity = rate(maturity\*2, coupon/2, -market price, 1000)\*2 – semi-annual coupon

For example, when the annual coupon bond is selling for $1,200, what is its return to investors?

For example, when the semi-annual coupon bond is selling for $1,200, what is its return to investors?

1. Current yield: For the above bond, calculate current yield.
2. Zero coupon bond: coupon=0 and treat it as semi-annual coupon bond.

Example: A ten year zero coupon bond is selling for $400. How much is its yield to maturity?

A ten year zero coupon bond’s yield to maturity is 10%. How much is its price?

1. Understand what is bond rating and how to read those ratings.
   1. Who are Moody, S&P and Fitch?
   2. What is IBM’s rating?
   3. Is the rating for IBM the highest?
   4. Who earned the highest rating?