Activity Sheet 1: About Bonds

Use the story to find the meaning of the words below. Underline the meaning when you find it

WORD BOX	
Bond Issuer Interest	Face value Default

Bonds are issued by corporations, governments and government agencies (like mortgage lenders, Fannie Mae and Freddie Mac) to raise large amounts of money. Just like any loan, the issuer (the organization selling the bond), agrees to pay back the money borrowed on a set date and agrees to pay interest. Interest is money paid by the lender to the borrower in addition to the amount borrowed for use of the money.

Investors buy investment grade bonds because they are considered very safe investments. They are issued by corporations and governments who are considered very trustworthy. These issuers always pay the interest and the loan back when they promise, Of course just like a friend can refuse or is unable to pay all or part of an IOU an issuer can refuse or default on a bond but it is unlikely this will happen when you buy investment grade bonds. Today we will learn about the safest kind of bonds: Investment grade bonds or those that are the most likely to be repaid on time. Let's look at an example:

You buy a U.S. Government 10-year Treasury bond on the day it is issued (made available for purchase) -- let's say January 1st and the bond has a $1000 face value. This means you have given our federal government a 10-year loan,. So ten years from now, The government will write you a check for $1000 to repay the loan. Your 10-year Treasury bond had an interest rate of 5 percent, the government will also pay you $50 per year over the 10 year life of the bond for the privilege of using your money.

Please use what you have learned from the reading to answer the questions below.

1. How is a bond like an IOU?

2. Why is an investment grade bond considered a “safe” investment?

3. How can an investor make money by buying a bond?

4. Your $1000 US Treasury bond has a 5% interest rate each year and you collect the interest for ten years. How much interest will you collect in one year? . How much interest will you collect over ten years?

5. Would you recommend your Stock Market Game team include a bond in your portfolio? Why, why not?

