

Answer Key

Activity 1

1. Bonds are like an IOU because they are also a loan, a different type of loan.
2. An investment grade bond is considered a "safe" investment because they are loans issued by corporations and governments that are thought to be trustworthy.
3. An investor can make money buying a bond because of the interest that is earned on the bond.
4. \$50 per year (in one year), \$500 over ten years.
5. Answers may vary.

Activity Sheet 2

1. A municipal bond because they are issued by state and local governments.
2. An agency bond because the mortgage company is privately owned but backed by the government.
3. A U.S. Treasury bond would be the safest possible bond investment because it pays interest semiannually.
4. A corporate bond because they are backed by assets, in this case land holdings in Latin America.
5. A corporate bond because they are backing the bond with credit and a reputation for being trustworthy.
6. An agency bond because it raises money for a new project, in this case increasing water power in America.

Activity Sheet 3:

You are investing \$1000.00:

1. \$30 for one year, \$900 at the end of 30 years.
2. \$40 for one year, \$400 at the end of 10 years.
3. \$60 for one year, \$120 at the end of 2 years.

4. Answers may vary.

You are investing \$3000.00:

5. \$90 for one year, \$450 at the end of 5 years.
6. \$270.
7. \$180.
8. Answers may vary.

You are investing \$5000.000:

9. \$175 for one year, \$3,500 for 20 years.
10. \$315.
11. \$225 for one year, \$4,500 for 20 years.
12. Answers may vary.

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