

↳

## BONDS

- Face Value: Amt. bond pays when it matures.
- Coupon payment: A payment that buyers of some bonds receive before maturity.
- Zero-coupon <sup>bonds</sup> ~~payments~~: Bonds in which buyers get no payments until bond matures.
- Bonds that expire within a year:

Treasury  
Bills (by  
US Govt.)

Commercial  
papers (by  
corporation)

↳ Asymmetric information :

→ One party in a transaction has ↑ info than the other.

→ Eg : A firm selling securities knows ↑ abt its prospects than the buyers.

→ 2 types : → Adverse selection

↓  
Moral hazard

→ the risk that 1 party will act in a way that harms the other.

→ Buyer buys securities from an issuer.

Issuer spends the buyer's money on gambling / something not promised to buyer ⇒ borrowers do not get their fund back in case of low returns of the securities. Good firms → savers don't opt to buy securities.

→ When firms are very eager to sell their securities, savers → some → risk overpaying for low returns while some savers don't buy.

→ Some savers don't buy even from good firms ⇒ don't get the funds they deserve.

→ Eg : If banks do not check loan applicants' credit details before sanctioning loans, riskier loan applicants readily accept interest rates ⇒ banks expect most applicants to be risky ⇒ " charge ↑ rate of interest. So, honest borrowers also pay ↑ rate of interest for ↓ loans. ] ← ADVERSE SELECTION.

→ To avoid this, banks check credit details of all applicants & screen potential borrowers. (adverse sel<sup>n</sup>)

→ To avoid moral hazards, banks issue contracts with borrowers.

↳ Financial development of a ~~country~~ country:

↳ its level → indicated by → stock market capitalization

Bank Loans

Both are low in low-income countries & ↑ in ↑ income countries.

← related to income of the countries

strongly

↳ Exs of centrally planned economies: (Command economy)  
North Korea, Cuba.