## Key Terms

actual rate of return

the total rate of return, including capital gains and interest paid on an investment at the end of a time period

bond

a financial contract through which a borrower like a corporation, a city or state, or the federal government agrees to repay the amount that it borrowed and also a rate of interest over a period of time in the future

bond yield

the rate of return a bond is expected to pay at the time of purchase

bondholder

someone who owns bonds and receives the interest payments

capital gain

a financial gain from buying an asset, like a share of stock or a house, and later selling it at a higher price

certificate of deposit (CD)

a mechanism for a saver to deposit funds at a bank and promise to leave them at the bank for a time, in exchange for a higher interest rate

checking account

a bank account that typically pays little or no interest, but that gives easy access to money, either by writing a check or by using a “debit card”

compound interest

an interest rate calculation on the principal plus the accumulated interest

corporate bond

a bond issued by firms that wish to borrow

corporate governance

the name economists give to the institutions that are supposed to watch over top executives in companies that shareholders own

corporation

a business owned by shareholders who have limited liability for the company’s debt yet a share of the company’s profits; may be private or public and may or may not have publicly-traded stock

coupon rate

the interest rate paid on a bond; can be annual or semi-annual

debit card

a card that lets the person make purchases, and the financial institution immediately deducts cost from that person’s checking account

diversification

investing in a wide range of companies to reduce the level of risk

dividend

a direct payment from a firm to its shareholders

equity

the monetary value a homeowner would have after selling the house and repaying any outstanding bank loans used to buy the house

expected rate of return

how much a project or an investment is expected to return to the investor, either in future interest payments, capital gains, or increased profitability

face value

the amount that the bond issuer or borrower agrees to pay the investor

financial intermediary

an institution, like a bank, that receives money from savers and provides funds to borrowers

high-yield bonds

bonds that offer relatively high interest rates to compensate for their relatively high chance of default

index fund

a mutual fund that seeks only to mimic the market's overall performance

initial public offering (IPO)

the first sale of shares of stock by a firm to outside investors

junk bonds

see high-yield bonds

liquidity

refers to how easily one can exchange money or financial assets for a good or service

maturity date

the date that a borrower must repay a bond

municipal bonds

a bond issued by cities that wish to borrow

mutual funds

funds that buy a range of stocks or bonds from different companies, thus allowing an investor an easy way to diversify

partnership

a company run by a group as opposed to an individual

present value

a bond’s current price at a given time

private company

a firm frequently owned by the people who generally run it on a day-to-day basis

public company

a firm that has sold stock to the public, which in turn investors then can buy and sell

risk

a measure of the uncertainty of that project’s profitability

savings account

a bank account that pays an interest rate, but withdrawing money typically requires a trip to the bank or an automatic teller machine

shareholders

people who own at least some shares of stock in a firm

shares

a firm's stock, divided into individual portions

simple interest

an interest rate calculation only on the principal amount

sole proprietorship

a company run by an individual as opposed to a group

stock

a specific firm's claim on partial ownership

Treasury bond

a bond issued by the federal government through the U.S. Department of the Treasury

venture capital

financial investments in new companies that are still relatively small in size, but that have potential to grow substantially