Mid term 2 – FRL 3000

Chapters being covered 7, 8, and 9

What is going to be covered through each chapter:

All problems only solve thru calculator

# Chapter 7 – Interest rate of bond valuation

## learning outcomes

* define important bond features and types of bonds
* explain bond values and yields and why they fluctuate
* describe bond ratings and what they mean
* outline the impact of inflation on interest rates
* illustrate the term structure of interest rates and the determinants of bond yields

## conceptual questions

7.1 – define important bond features and types of bonds

* what are the cash flows associated with a bond?
* what is the general expression for the value of a bond?
* is it true that the only risk associated with owning a bond is that the issuer will not make all the payments? Explain

7.2

* what are the distinguishing features of debts compared to equity?
* what is the indenture? what are protective covenants? give some examples
* what is a sinking fund?

7.3

* what does a bond rating say about the risk of fluctuations in a bond’s value resulting from interest rate changes?
* what is a junk bond?

7.4

* what might an income bond be attractive to a corporation with volatile cash flows? can you think of a reason why income bonds are not popular?
* what do you think would be the effect of a put feature on a bonds coupon? how about a convertibility feature? why?

7.5

* why do we say bond markets may have little or no transparency?
* in general, what are bid and ask prices?
* what is the difference between a bonds clean price and its dirty price?

7.6

* what is the difference between a nominal and a real return? which is more important to a typical investor?
* what is the fisher effect?

7.7

* what is the term structure of interest rates? what determine its shape?
* what is the treasury yield curve?
* what six components make up a bonds yield?

## connect quiz questions

7.1 an 8 percent, semiannual coupon bond has a face value of $1,000 and a current market value of $1,030. What is the current yield?

7.3 The 10-year bonds issued by KP enterprises were rates as BBB and Baa last year. This year, the bonds are rated as CC and Ca. What term best applies to these bonds today?

7.4 what type of bonds is most apt to have a “collar”?

7.6 kate wants to earn a 4 percent real rate of return. to do this what nominal rate must she earn if the inflation rate is 3.6 percent?

7.7 the term structure of interst rates is based n what type of bonds?

## chapter review and selftest problems

7.1 bond values – microgates industries bond has a 10 percent coupon rate and a $1,000 face value. interest is paid semiannually, bond has 20 years to maturity. if investors require a 12 percent yield, what is the bonds value? what is the effective annual yield on the bond?

7.2 bond yields – a microhard corp bond carries an 8 percent coupon. paid semiannually. the par value is $1,000 and the bond matures in six years. if the bond currently sells for $911.37, what is its yield to maturity? what is the effective annual yield?

bonds and bond valuation

more on bond features

bond ratings

bond indenture

some different types of bonds

Bond markets and quotations

Inflation and Interests Rates

Determinants of Bonds Yields

# Chapter 8 – Stock Valuation

Common stock valuation

some features of common and preferred stocks

estimating returns

stock quotations

the stock markets

# Chapter 9 – Net Present Value and Other Investments

net present value

the payback value

the discounted payback

the average accounting return

the internal rate of return

the profitability index

the practice of capital budgeting