

QUESTION 1

If junk bonds are junk, then why do investors buy them?

QUESTION 2

Which should have the higher risk premium on its interest rates, a corporate bond with a Moody's Baa rating or a corporate bond with a C rating? Why?

QUESTION 3

Predict what will happen to interest rates on a corporation's bonds if the federal government guarantees today that it will pay creditors if the corporation goes bankrupt in the future. What will happen to the interest rates on Treasury securities?