

Chapter 3

Preset value - dollar today has more value r/b b/c it can be invested to earn more money.

Nominal interest rate - interest rate before inflation

Real interest rate - interest rate after adjusted for inflation.

Interest rate risk - risk that a bond's price will change due to fluctuations in interest rates

Reinvestment risk - risk from short term investments that is reinvested at future uncertain interest rates

Long term bonds : has higher Interest Rate changes.

Short term bonds : less sensitive with little to no interest rate risk if held to maturity.

Interest Rate Parity - if interest rate falls, long term bonds appreciate more b/c they were issued at higher rate