~~lempre s~~
Default - Occurs when the issuer of the bond is unable or unwillis to make interest payments when promised or to pay off the face value when the bond matures.

Default free bonds - bonds with no default risk.

risk premium - the extra return investors expect when they buy a bond that carries more risk as to compare to a safe one.

Credit-ratis agencies - investment advisory firms that rate the quality of corporate and municipal bonds in terms of the probability of default.

Junk bonds - higher risk ~~and been~~ ~~...~~, these bonds always have higher interest rates than investment grade securities.

yield curve - a plot of yields on bonds with differing terms to maturity but the same risk, liquidity, and tax considerations. It describes the term structure of interest rates for particular types of bonds

inverted yield curve - the interest rate on long-term bonds is lower than the interest rate on short-term bonds.

Expectations Theory - the following common sense proposition: The interest rate on a long term bond will equal an avg of the short term rates that people expect to occur over the life of the long term bond.

Market segmentation theory - sees markets for different-maturity bonds as completely separate and segmented.
- The interest rate for each bond with a different maturity is then determined by the supply of and demand for that bond, with no effects from expected returns on other bonds with other maturities.

liquidity premium theory - interest rate on a long-term bond will equal an avg of short-term interest rates expected to occur over the life of the long-term bond plus a liquidity premium.

forward rate - measure i.e. it is the one-period interest rate that the pure expectations theory of the term structure indicates is expected to prevail one period in the future.

Spot rate - differentiate source rate derived from the term structure from actual interest rates that are observed at time t.