Section 2: Guided Reading and Review

Bonds and Other Financial Assets

A. As You Read

As you read Section 2, answer the questions on the lines provided.

1. How does an investor earn money by buying bonds at a discount?

2. What are Standard & Poor’s and Moody’s ratings based on?

3. What advantages do bonds offer to firms that issue them?

4. What disadvantage do bonds present for the issuer?

5. (a) What types of government bonds are available to investors? 
(b) Which type offers the greatest tax advantage?

6. What three organizations help ensure value and prevent dishonesty in the bond market?

7. (a) What is the investment advantage of money market mutual funds over CDs and savings accounts? 
(b) What is the disadvantage?

8. (a) In financial asset markets, how do capital markets differ from money markets? 
(b) How do primary markets differ from secondary markets?

B. Reviewing Key Terms

Define the following terms.

9. maturity

10. corporate bond

11. junk bond

12. coupon rate