

Bonds

Bond Tutorials Will Cover:

- Bond Basics - Theory
- Discount Bond vs. Premium Bond
- Bonds - Solve for the Coupon Rate
- Bonds - Rate of Return (Bonds held for one year)
- Bonds - Rate of Return (Bonds held for multiple years)

What is a Bond?

- It is a form of long-term debt undertaken by a firm as a source of funds to finance its operations. The firm in this case is the borrower and the purchaser of the bond (investor) is the lender.
- In exchange of lending funds to the corporation the investor receives periodic interest payments called coupons, and a predetermined face value at expiration or maturity of this bond.

Example 24 - Solve for the Present Value

What should you pay for a bond today with the following details: A 4% coupon bond with 5 years remaining to maturity and the current market rates are 5%. Interest is paid semi-annually.

Example 25 - Solve for the Present Value

What should you pay for a bond today with the following details: A 6% coupon bond with 5 years remaining to maturity and the current market rates are 5%. Interest is paid semi-annually?

Example 26 - Solve for the Coupon Rate

Calculate the coupon rate of the bond given the following information: Face value \$10,000; current price \$9,171.96; yield to maturity=10.8%, term to maturity = 13 years. Assume the coupon interests are payable semi-annually.

Example 27 - Solve for the Market Rate

The current price of a 25-year maturity bond is \$1,150. The face value is \$1,000, and the coupon rate is 9% per year, interest payable annually. What is the yield to maturity of the bond?

Rate of Return

Example 28 - Solve for the Rate of Return

Last year, you paid \$1,025 to buy a 10 year 7% semi-annual coupon bond. If the yield to maturity of the bond today is 6%, what was the annual rate of return of this bond over the last year?

Example 29 - Solve for the Rate of Return (Bond held for multiple years)

3 years ago, you paid \$1,025 to buy a 10 year 7% semi-annual coupon bond. If the yield to maturity of the bond today is 6%, what was the annual rate of return of this bond over the last 3 years?