

Chapter 12 Bonds and Mutual Funds

Economics and You: Bonds

Directions Answer the following questions.

1. What is the relationship between interest rates and bond prices?

2. Recall the three main components of a balance sheet: assets, liabilities, and owner's equity. In which category do bonds fit for a corporation?

3. If you were to advise a friend who has \$100,000 to invest in bonds and wants to minimize risk, which type of bond would you suggest: corporate or U.S. Treasury bonds?

4. Research government-issued bonds during World I and World War II. What was the purpose of war bonds? What were government-issued bonds called? What themes were used to sell those bonds? Besides supporting the military during the war, what economic reasons may have been a factor in deciding to issue war bonds?

5. If a corporation goes bankrupt, who do you think would be first to share in the company’s assets: bond holders, common stock holders, or preferred stock holders? Explain your rationale.
