CASH COURSE WORKSHEET

Investing & Bonds Quiz

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1. Match the definition in Column A with the term in Column B.

Column A	Column B
____________________ The period after which a bond must be paid	a. Bond
____________________ High-grade with reliable outcome of payment	b. Maturity
____________________ Low-grade with greater risk of outcome of payment	c. Coupon Payments
____________________ Yearly interest payments on a bond	d. Investment Grade
____________________ A loan issued from an investor to an issuer	e. High-Yield

2. What is one reason a bond may be issued?

a. To keep an investor from declaring bankruptcy
b. To give confidence to investors
c. To raise money for projects and expansions
d. To protect the accounts of the issuer

3. For a bondholder, why would bonds be preferred to stocks?

a. Bond issuers may take legal action if their business fails
b. Bond issuers are legally bound to pay regardless of their business' success
c. Bond issuers may cancel bonds if their business is unsuccessful
d. Bond issuers receive extra funds from the bondholder if their business succeeds

4. What is the relationship between a bond's coupon rate and yield?

a. Both the coupon rate and yield are fixed
b. The coupon rate is fixed, and the yield may change
c. The coupon rate may change, and the yield is fixed
d. Both the coupon rate and yield may change

5. Why are bonds graded?

a. To help issuers create a healthy budget
b. To inform holders about their availability
c. To build relationships between issuers and holders
d. To classify risk and trustworthiness

Application: Otto's Hot Dogs wants to raise capital to expand its operations, so it sells bonds at a par value of $1,000 each with a maturity of 5 years. In addition, Otto's Hot Dogs also agrees to make yearly coupon payments at a 5% interest rate. You decide to invest and buy two bonds. Calculate the money you will have received from Otto's Hot Dogs by the time the bonds mature, including the yearly interest payments and the return on par value.

(Hint: calculate the interest for two bonds for one year, then multiply by 5. Add the total interest to the par value return of the two bonds.)

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Answer Key

1. Match the definition in Column A with the term in Column B.

Column A		Column B
b. Maturity	The period after which a bond must be paid	a. Bond
d. Investment Grade	High-grade with reliable outcome of payment	b. Maturity
e. High-Yield	Low-grade with greater risk of outcome of payment	c. Coupon Payments
c. Coupon Payments	Yearly interest payments on a bond	d. Investment Grade
a. Bond	A loan issued from an investor to an issuer	e. High-Yield

2. What is one reason a bond may be issued?

c. To raise money for projects and expansions

3. For a bondholder, why would bonds be preferred to stocks?

b. Bond issuers are legally bound to pay regardless of their company's success

4. What is the relationship between a bond's coupon rate and yield?

b. The coupon rate is fixed, and the yield may change

5. Why are bonds graded?

d. To classify risk and trustworthiness

Application: Otto's Hot Dogs wants to raise capital to expand its operations, so it sells bonds at a par value of $1,000 each with a maturity of 5 years. In addition, Otto's Hot Dogs also agrees to make yearly coupon payments at a 5% interest rate. You decide to invest and buy two bonds. Calculate the money you will have received from Otto's Hot Dogs by the time the bonds mature, including the yearly interest payments and the return on par value.

Answer: Here's the breakdown of the total amount you would receive from the bonds:

- **The total annual interest for two bonds is $100.**
- **Over 5 years, you would receive $500 in interest.**
- **At maturity, you would receive $2,000 for the two bonds, the par value.**

When you combine the interest payments and the par value return, you would receive a total of $2,500 from your investment in Otto's Hot Dogs over the 5-year period.