

1. Yasmin bought a 6-year 8% coupon bond with a par value of \$1,000 from Newscorp on January 1<sup>st</sup> 2012. The bond makes payments annually.

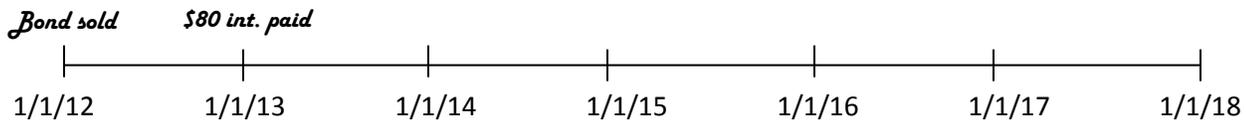
Yasmin bought the bond. Is she the debtor or creditor? Why?

Break it down:

- What does the “6-year” mean?
- What does the “8% coupon” mean?
- What does the “par value of \$1,000” mean?

How much is each annual interest payment that she will receive?

Fill in the diagram below to describe the cash flows from the bond:



Total amount borrowed: \_\_\_\_\_

Creditor’s profit: \_\_\_\_\_

Total amount (re)paid: \_\_\_\_\_

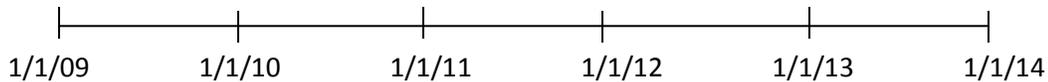
Creditor’s profit %: \_\_\_\_\_

2. Dell sold a 5-year 7% coupon bond with a par value of \$100,000 to an investor on January 1<sup>st</sup> 2009. The bond makes payments annually.

Is Dell a debtor or a creditor?

How much is each annual interest payment that they will pay?

Fill in the diagram below to describe the cash flows from the bond:



Total amount borrowed: \_\_\_\_\_

Creditor’s profit: \_\_\_\_\_

Total amount (re)paid: \_\_\_\_\_

Creditor’s profit %: \_\_\_\_\_

3. Some people say that a bond is a “series of repeated cash flows.” In your own words, what does this mean?

4. Microsoft sold a 10-year 5% coupon bond with a par value of \$10,000. The bond makes payments annually.

How much is each individual interest payment for this bond?

How much will Microsoft pay out in interest payment for this bond total?

5. Jackson bought a 5-year 8% coupon bond with a par value of \$1000. The bond makes payments annually.

After the third year, how much has Jackson gotten in payments from this bond?

At that time, how much more will he expect in interest payments alone?

How much can he expect to receive from the repayment of the face value?

So, in total, what is the value of the cash flows he can expect from this point on?

If someone offered him \$1000 for this bond at this time, should he sell it?

If someone offered him \$1080 for this bond at this time, should he sell it?

If he wanted to sell the bond to someone, what would be the value of the bond at this date?

6. Include one question you have about bonds at this point: