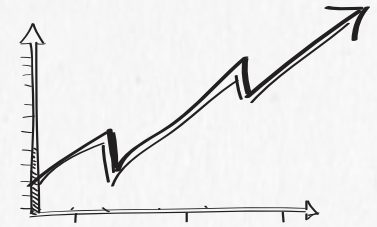
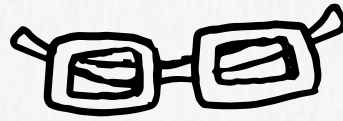


Activity 1

BOND BASICS



PART 1: THE PRIMARY BOND MARKET

In January, you purchase a \$10,000 bond with an annual coupon rate of 7.00% and a maturity date in 10 years. Use a calculator to complete this chart, then answer the questions below.

Payment Dates	Face Value	Coupon Rate	Coupon Payment	Cumulative Payments
January Year 1 (purchase)	\$10,000.00	3.50%	0	0
July Year 1	\$10,000.00	3.50%	\$350.00	\$
January Year 2	\$10,000.00	3.50%	\$350.00	\$
July Year 2	\$10,000.00	3.50%	\$350.00	\$
January Year 3	\$10,000.00	3.50%	\$350.00	\$
July Year 3	\$10,000.00	3.50%	\$350.00	\$
January Year 4	\$10,000.00	3.50%	\$350.00	\$
July Year 4	\$10,000.00	3.50%	\$350.00	\$
January Year 5	\$10,000.00	3.50%	\$350.00	\$
July Year 5	\$10,000.00	3.50%	\$350.00	\$
January Year 6	\$10,000.00	3.50%	\$350.00	\$
July Year 6	\$10,000.00	3.50%	\$350.00	\$
January Year 7	\$10,000.00	3.50%	\$350.00	\$
July Year 7	\$10,000.00	3.50%	\$350.00	\$
January Year 8	\$10,000.00	3.50%	\$350.00	\$
July Year 8	\$10,000.00	3.50%	\$350.00	\$
January Year 9	\$10,000.00	3.50%	\$350.00	\$
July Year 9	\$10,000.00	3.50%	\$350.00	\$
January Year 10	\$10,000.00	3.50%	\$350.00	\$
July Year 10	\$10,000.00	3.50%	\$350.00	\$
January Year 11 (includes face value)	\$10,000.00	3.50%	\$10,350.00	\$

- How do you calculate the coupon payment amounts? Describe the mathematical steps for doing this or the formula you would use. _____

- How much money will you make each year from this investment? \$ _____
- Over the life of the bond, what will be your total earnings? \$ _____
- Use the yield to maturity calculator at investinganswers.com/calculators/yield/yield-maturity-ytm-calculator-2081 to find out your yield to maturity over the life of the bond. _____%
- Do you think this is a wise investment? Why or why not? _____
