UNIT SIXTEEN
B O N D S

INTRODUCTION

Complete this dictionary entry with types of bonds; the words in each underlined pair have opposite meanings:

Bond is an IOU (I owe you) issued by a borrower to a lender. Bonds usually take the form of fixed-interest rate securities issued by governments, local authorities, or companies. However, bonds come in many forms: with ***fixed*** or ____________rates of interest, ***redeemable*** or ____________, ***short-*** or _________, ______________ or ***unsecured***, and ***marketable*** and __________________. Fixed-interest payments are usually made twice a year but may alternatively be credited at the end of the agreement (typically 5 to 10 years). The borrower repays a specific sum of money plus the face value (par) of the bond. Most bonds are unsecured and not grant shares in an organization. Bonds are usually sold against loans, mortgages, credit-card income, etc., as marketable securities. A discount bond is one sold below its face value; a premium bond is one sold above par.

(Source: Oxford Dictionary of Business and Management, p. 64)

USEFUL COLLOCATIONS

- *adj* + risk *(noun)*

considerable, grave, great, high, major, serious, significant, substantial, terrible│good│bad, poor│low, slight, small│additional, extra, increased│reduced│genuine, real│possible, potential│long-term│relative│foolish, unacceptable, unnecessary│calculated: I take calculated risks but never gamble.

- *quantifiers* + risk *(noun)*

degree, level│element: The operation carries an element of risk.

- *verb* + risk *(noun)*

face, run, take│entail, incur, involve, pose: Pollutants in the river pose a real risk to the fish**.** **│increase│minimize, reduce│avoid│assess, measure│ outweigh:** The benefits outweigh the risk.

- risk *(noun)* + *verb*

outweigh sth

- risk *(noun)* + *noun*

group│factor│assessment│reduction│management

- *prep* + risk *(noun),* risk *(noun)* + *prep*

at~: to put someone´s life at risk**, ~from:** a risk from contaminated water**, ~in:** I was taking a big risk in lending her the money**. ~to:** a risk to health

- **PHRASES**

at your own risk: The building is unsafe – enter at your own risk.
an increase/a reduction in risk, risk and benefits/rewards

(Source: Oxford Collocations dictionary for students of English, p.664, 665)

♫ p. 96/1b

Complete the sentences with the appropriate forms of the following verbs and add suitable prepositions where necessary:

be related; carry; invest; yield; obtain; constitute; hold; receive; get; represent; accrue; denominate

1. Mutual funds .... a very large source of savings in the USA.
2. Bonds .... an investment that .... a moderate degree of risk.
3. Investors can .... a return on their maturity.

4. Long-term investors receive their return over time ……………………… periodic interest payments and then upon the maturity of the bond, ……………………… their principal back.
5. The advantages of trading bonds is through the price appreciation that may …………………… a bond during the time at which the investor would …………………… it.
6. The price of the bond directly ………………………… the level of interest rates in the economy.
7. Bonds ………………………… based on the value one hundred.
8. If interest rates are rising, the amount that you could ……………………… a dollar today would ………………………… a higher return than the value yesterday.

B o n d s – Reading p. 97-98/2a

From each pair of words printed in bold choose the correct one. *The choice of wrong words: words which sound similar and words which have opposite meanings. In both cases, it is the knowledge of English as well as the knowledge of economics which are needed.*

1. Companies usually ***borrow/lend*** money by issuing bonds. They prefer this ***to/before*** borrowing from banks as this is often cheaper; market can judge the firm´s ***creditworthiness/credit facilities*** better than a bank, i.e. it ***lends/borrows*** money ***at/for*** a lower interest rate.
2. Consequently banks suffer from this trend; they have to lend money to borrowers that are much ***less/more*** secure than blue chip companies.
3. ***Bond-issuing/bond-publishing*** companies ***are recruited/are rated*** by private ratings companies and given an "investment grade" according to their financial situation and performance. ***The/A*** higher the rating, ***a/the*** lower the interest rate at ***which/what*** a company can borrow.
4. Bonds that are bearer certificates are issued on the primary market and can be traded on the secondary market until they ***pay/mature***. Their price on the secondary market ***floats/fluctuates*** according to changes in interest rates.
5. ***A coupon/A voucher*** is a bond´s yield at any particular time. It is expressed ***as/in*** a percentage of ***its/it´s*** price on the secondary market.
6. The advantage of debt financing ***over/towards*** equity financing is that bond interest rate is tax deductible. In other words, a company deducts its interest payments from its profits ***after/before*** paying tax, whereas dividends are paid out of already-taxed profits. The former procedure is called ***tax evasion/a tax shield***. On the other hand, borrowing through bonds means financial risk: bond interest has to be paid, even in a year without any profits from which to ***divide/deduct*** it and the ***principal/ principle*** has to be repaid when the debt matures, whereas companies are ***always/not*** obliged to pay dividends or repay share capital.
7. Debt-equity ratio is determined by balancing tax savings against the risk of being ***delegated/declared*** bankrupt ***with/by*** creditors.
8. ***Principal/principle*** is the ***original/additional*** amount of money that someone borrows, that is paid back with ***additional/original*** money called interest.
9. Governments, ***unlike/like*** companies, do not have the option ***to/of*** issuing equities. When public spending ***expands/exceeds*** receipts from income tax, VAT and so on, they issue bonds.
10. ***Short-term/Long-term*** government bonds are known as gilt-edged securities in Britain and Treasury Bonds in the USA.
11. The British and American central banks also sell and buy short term (three-month) Treasury Bills ***in/as*** a way of ***regulating/regulation*** the money ***demand/supply***.
12. To reduce the money supply, governments ***sell/buy*** these bills ***from/to*** commercial banks, and withdraw the cash received from circulation; to increase the money supply they buy them back, paying with newly created money which is put into circulation in this way.

♫♫ **p. 99/2d**

Complete the sentences with the appropriate forms of the following verbs and add suitable prepositions where necessary:

be; represent; deregulate; compensate; pay; repay; meet; index; redeem; convert; prevail; present; issue

1. **Floating rate notes** became popular when interest rates around the world .... The interest rate on this note is variable. It .... a particular reference rate or something called LIBOR, which is the London Inter-Bank Offered Rate.
2. **A convertible bond** has features of both a traditional bond and a stock. This bond is exchangeable for equity or stock, provided certain conditions .... When it .... it looks like an ordinary bond, it .... a fixed interest rate, it has a final maturity date, but it also permits the holder .... it for shares in the borrower if certain conditions .... Also it is cheaper for a company to issue bonds than to issue shares and convertibles give a company the advantage of debt financing (the tax shield) without the necessity .... the principal if the bondholders later .... the bonds into shares.
3. **Junk bonds** are high yield securities; they are issued by companies with a very high risk of default. Securities issued by the US government .... the other end of the risk spectrum as they .... immune from the risk of default. Holders of junk bonds are paid a premium .... the high degree of risk the bonds ....

T r a n s l a t e :

prodlení, nedodržení závazku, platební neschopnost	
dluhové financování (vydáváním obligací)	
pod nominální hodnotu	
nad nominální hodnotu	
směnitelné obligace	
potvrzení znějící na doručitele	
získávání kapitálu prodejem části vlastnictví	
daňový štít	
obligace s pohyblivou úrokovou mírou	
splátkový kalendář	
méněcenné dluhopisy	
oběh (peněz)	
odměna, prémie, ážio (hodnota nad nominální hodnotu akcie)	
odpočitatelný z daňového základu	
podíl celkových dluhů k vlastnímu kapitálu	
pravidelné vyplácení úroků	