BONDS – KEY

LEAD-IN

- Governments can raise taxes and issue bonds.
- Companies can issue both bonds and shares.
- Bond interest is tax-deductible, but unlike share dividends, bond interest payments have to be made, and bonds have to be repaid.
- Bonds are safertha shsares for investors, but they generally pay a lower return.

Phrases to be underlined in the text:

- Tax revenue
- Governments also issue bonds.
- They can either issue new shares...(equity finance) or borrow money(debt finance), usually by issuing bonds.
- Bonds are generally safer than stocks or shares, because if an insolvent or bankrupt company sells its assets, bondholders are among the creditorswho might get some of their money back.
- Shares generally pay a higher return than bonds.
- Bond interest is tax deductible.
- Dividends paid to shareholders come from already taxed profits.
- Debt increases a company's financial risk: bond interest has to be paid.
- The principal has to be repaidwhen the debt matures.

READING COMPREHENSION

1. F – everyday activities should be financed by cash flows; bonds are usually only issued for expanding a company's activities.
2. T
3. T
4. F – bondholders, along with other creditors, may get some of their money back.
5. T
6. F – the tax advantage comes from issuing bonds.
7. F – systematic public spendingshould be paid for by tax revenue.
8. F – a 5% bond would increase in valueif interest rates fell to 4%.

VOCABULARY

I. 1. Cash flows 2. Equity 3. Mutual funds 4. Pension funds 5. Principal 6. Maturity 7. Coupon 8. Insolvent or bankrupt 9. Creditors 10. Dividends 11. Market makers 12. Bid or bid price 13. Offer/offer price 14. Yield

II. Borrow money, deduct interest payment, finance activities, issue shares, issue bonds, pay (a rate of) interest, pay a return, pay dividends, pay tax, raise money, receive interest payment, repay principal, sell assets

Other possible combinations: deduct tax, receive dividends, repay bonds/money, sell bonds

LISTENING (WORK WITH THE SCRIPT, PLEASE)

1. AAA (Triple A) and 'gold standard'meaning very safe, as safe as gold.
2. Because mortgages are long term and they tend to be solid, i.e.safe, as traditionally they were only lent to people who would be able to repay them.
3. People with a bad credit history, or with large mortgages against properties which they couldn't really afford.
4. Mortgages were securitized: packaged into bonds containing partly safe debt and partly very bad debt.
5. They didn't correctly analyse the motgage -backed securities and gave them all AAA ratings.
6. Investorsin mortgage-backed securities, particularly banks, didn't know if they had good or bad debt, and no longer trusted each other's accounts (balance sheets) ans so they stopped lending to each other.

READING

1. British government bonds (gilts); (investment grade)corporate bonds; high-yield (non-investment-grade) corporate bonds.
2. The British government is buying back billions of pounds'worth of gilts, which increases their price (by the logic of supply and demand); because of the recession, companies are having to pay investors high interest rates to convince them to buy (investment-grade) bonds, tje interest rates paid by risky, non-investment-grade bonds are extremely high.
3. To inject money into the depressed economy (to kickstart it)
4. Companies that are considered to have a reasonable chance of going bust and defaulting on their loans.
5. Some of the companies might default, but a careful selection of high-yield bonds reduces the investor's risk.

VOCABULARY

1. Soared/ to soar 2. To kickstart 3. Benchmark 4. Slump, recession, depression 5. Rally 6. Defaulting/to default 7. To go bust