Chapter 2: Building an investment portfolio

Video 5

How bond markets work

Corporate bonds

Corporate bonds are debt securities issued by a company to raise money for business needs, such as growing the business. They are typically seen as riskier than government bonds, so they usually have higher interest rates to compensate for the additional risk. The highest-quality and safest bonds are typically referred to as "Triple-A bonds," and the least creditworthy are termed "junk bonds."

Fiscal policy

Fiscal policy is the use of government spending and taxation to influence the economy.

Government bonds

Governments often need extra money – much more than they can collect in the form of taxes – so they borrow money by issuing bonds. A coupon, also referred to as a "coupon rate," is the annual interest rate paid on a bond. When you buy a government bond, you are agreeing to let the government borrow money for a certain period of time; in return, it will pay you interest, otherwise known as a "coupon." To calculate the coupon rate, divide the annual coupon payment by the bond's face value, and then multiply by 100 to get a percentage. For example, if a bond pays $50 a year and has a face value of $1,000, the coupon rate is (50/1000) x 100 = 5%.

Macroeconomics

Macroeconomics is the part of economics that looks at the behaviour of the overall economy, which includes markets, businesses, consumers and governments. Macroeconomics examines factors like inflation, price levels, rate of economic growth, changes in unemployment, etc.

Monetary policy

Monetary policy is a set of actions taken by a central bank to control a country's money supply and influence interest rates to achieve economic goals.

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