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1) Why do corporations issue stock? Why do investors buy that stock? (10 points)

Stock serves as share in the ownership of a company; holding a stock means you are one of the many owners of a company. When corporations issue stock, they are transitioning their business from private market to public market. Corporations issue stock when they are expanding their business and needs more funds to the company. When they are deciding to expand their company, they either have to raise money through borrowing(from the bank or issue bonds) or selling part of the company(stock issuing); borrowing from bank or bond issuing are debt financing but stock issuing is equity financing. As stocks are bought, company is able to raise money to expand its business such as buying more machines or building new infrastructures, etc. The advantage a company gets for issuing stocks is that it doesn't need to pay back or make interest payments to the stockholders. Investors buy stocks because they may expect to see is that the shares will worth more than they priced they paid in the future; they seek for capital appreciation. Moreover, they may seek dividend payment from the stocks they have purchased. Dividend payments are distributed when a company become profitable and distributes earnings to the stockholders; there's no obligation for the company to pay dividends to the stockholder when they face loss. The other reason is maybe that the stockholders seek ability to vote share and influence the company; they are one of numerous owners of the company so they have ability to vote the board directors.

2) How do interest rates in the economy affect the price of a corporate bond? (10 points)

Interest rates in the economy moves in opposite direction to the price of a corporate bond; having an inverse relationship. A corporate bond gives a interest payment at a fixed interest rate which is stated on the paper. Therefore, as interest rates in the economy rises, investing money elsewhere yields higher return so demand for the corporate bond falls. Therefore, the fall in demand for bonds would cause the price of bond to drop. If the interest rate on the bond is below that of the economy, the price would reduced(demand for bond decreases) to the price less than par in order to attract investors to buy the bond which is called selling bond at a discount. On the other hand, if the interest rate on the bond is above that of the economy, the selling price would increased(demand for bond increases) to a price more than par in order to attract investors to buy the bond which is called selling bond at a premium.

3) How important is the investment objective as stated in the fund's prospectus? (5 points)

The investment objective which is stated fund's prospectus define the project's level of risk the funding takes, the volatility of the stocks, and the potential return on the investment. If the objective is making high amount of money in the short period of time and incurs a lot of risk, a risk averse investor might not choose to invest in the mentioned mutual fund project, vice versa. Each mutual fund has a different goal, therefore, if the objective about the funds match with the investors preference(risk averse-low risk low return, risk lover-high risk high return), they would choose to invest in the stated mutual fund.