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1. Why do corporations sell bonds?
Ans There are two main ways for corporation to raise fund through debt, which are issuing bond and borrowing directly from bank. However, corporations might want to sell bonds rather than borrow from bank because bond has lower cost than loan from bank. Moreover, bond provides less restriction than loan from bank. If corporation borrows money from bank, its ability to borrow will subject to debt covenants. Therefore, raising fund through bonds provide much lower cost and less restrictions than borrowing directly from the bank.

2. What are the differences among a debenture, a mortgage bond, and a subordinated debenture?
Ans The main difference between mortgage bond, debenture, and subordinated debenture is that mortgage bond is collateralised by some company assets, while debenture and subordinated debenture are not collateralised by any assets. Another difference is the rank to receive the money from company's liquidation process. If company failed to pay principal, company must liquidate its company and the asset will go to mortgage bond first and debenture and subordinated debenture, respectively. Therefore, mortgage bond has the lowest risk, follow by debenture and subordinated debenture.

3. Why would an investor purchase a convertible bond or a high-yield bond?
Ans Convertible bond is the hybrid of bond and stock. Investors prefer to buy this bond because it has limited downside since bond has lower risk and safer than stock, while, at the same time, it also provide the unlimited upside in the case that investor convert this bond into stock. For high-yield bond, the advantage of this bond is that it provides the high return at the lower risk, compared to stock. Moreover, a high-yield bond is less correlate to the interest rates, so there is less interest rates risk. Last but not least, for sure, a high-yield bond is a junk grade bond, which means that the company has the financial problem, so it has the bankruptcy risk. However, since it is a bond, so the bond investors will have the priority to receive the asset before stockholder, if company go liquidation.

4. Describe three reasons a corporation would sell convertible bonds.
Ans First, convertible bond has lower coupon rate than another bonds because it has lower risk, since investor can convert it to take the upside gains. Secondly, company can delay its dilution because issuing convertible bonds is similar to medium term debt and company can use the time before conversion to increase its earning to reduce the dilution effect when investors convert its bond. Lastly, convertible bonds allow company to immediately raise fund in the some surprised circumstance. For example, after Tom-Yum-Goong crisis, many companies faced with the financial problem and they had to raise fund immediately. It was difficult for them to borrow from the banks, so they needed to provide more attractive return to their lender by offer them the right to convert bond into stock and get the upside gains.

5. Explain the methods that corporations can use to repay a bond issue.
Ans First, the company can use its earnings from the investment, which funded by its bond, to repay its bond issue. Secondly, company can use the sinking fund by buy back its bond annually at par value or market value.