Ariya Prongsirikul
5504640078

FN221 Assignment 6

1. **Why do corporations sell bonds**

   When the companies need to raise the money to be used in the company. They mostly decide on issuing financial instruments or borrowing from credible financial institutions. Sometimes, it is difficult for the company to issue common stocks or preferred stocks so bond is the attractive alternative for company's method to raise fund. The company issue the bond like a loan between potential investors and company. The company can have the benefit from interest paid to the bondholders/investors with tax-deductible expenses. Moreover, selling bonds improve the company's financial leverage.

2. **What are the differences among a debenture, a mortgage bond, and a subordinated debenture?**

   Debenture bond is a long-term unsecured bond that is backed only by the reputation of the company and not by collaterals.
   Mortgage bond is a secured bond, which mostly issued by company. Also, the company's assets back this kind of bond. Anyways, this bond has higher return comparing with debenture bond.
   Subordinated debenture is the unsecured bond with no company's collateral to back up but this kind of bond has less priority to repay than other bonds.

3. **Why would an investor purchase a convertible bond or a high-yield bond?**

   As the investor's point of view, investor decision depends on the riskiness and the returns on investing on the particular bonds. Firstly, investors would purchase high-yield bonds because these bonds offer additional income for the investors rather than the simply conservative bonds. However, to obtain the marginal income the investors have the bear additional risk.
   A convertible bond is a bond that investors can convert to common stock of that issuing company. This type of bond is interesting because when you hold the bond, you will get an interest as return, and when you convert bond into stock, you have right to sell it freely and also has the rights as shareholder get. Thus, this type of bond will depends on the market condition, especially the market interest rate.

4. Describe three reasons a corporation would sell convertible bonds.

There are three advantages by convertible bonds

1. The interest rate becomes the important sense of a convertible bond because the interest rate on a convertible bond is often lower than conservative one.
2. For the speculative investors, this kind of bonds is attractive in the case of higher return.
3. The company's debt would disappear on the balance sheet after the convertible bonds are converted into stocks.

5. Explain the methods that corporations can use to repay a bond issue.

There are two methods for the company to take into decision that it has enough funds available to redeem a bond. Firstly, serial bonds are the bonds that a single-time issued and their maturities are on the different dates. Secondly, finking fund is a fund that issuer has annually or semi-annually deposited into the fund. This process is made for the purpose of redeeming a bond issue.