

Guided Reading Activity

Financial Markets

Lesson 2 *Financial Assets and Their Markets*

Review Questions

Directions: Read each main idea and answer the questions below. Refer to your textbook as you write the answers.

A. Bonds as Financial Assets

Main Idea: Governments and businesses issue bonds when they need to borrow funds for long periods of time. Bonds have ratings that help investors assess the quality of the bond.

1. What is a bond and what are its three main components?

2. What determines the price of a bond?

3. How do investors usually compare bonds, and what determines it?

4. What are bond ratings, and how are they calculated?

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5. How does a bond's rating affect its price?

B. Financial Assets and Their Characteristics

Main Idea: The modern investor has a wide range of financial assets from which to choose. These include certificates of deposit, bonds, and Treasury notes and bills. They vary in cost, maturity, and risk.

1. Why are certificates of deposit attractive to small investors?

2. What are junk bonds?

3. What are municipal bonds used to pay for?

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4. Who is a beneficiary?

5. What is the main difference between Treasury notes, Treasury bonds, and Treasury bills?

6. When do you pay taxes on money invested in an IRA?

C. Markets for Financial Assets

Main Idea: Investors often refer to markets according to the characteristics of the financial assets traded in them. These markets overlap to a considerable degree.

1. What is the difference between a capital market and a money market?

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2. What is the difference between a primary and a secondary market?

Summary and Reflection

Directions: Summarize the main ideas of this lesson by answering the questions below.

You have just inherited \$10,000 from an aunt. Consider what you might want to use the money for in the future, and then detail what sort of investment strategy would be the best way to get to your goal. Is your goal a long term one, or is it more immediate? How much risk are you willing to take on to meet that goal? Where will you invest your money?
