**Chapter 5: Bonds**

**Activity: Impact on Price of Bonds**

Think about whether the bonds will go up or down in value or stay the same?

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| **[http://blogs.blouinnews.com/blouinbeatbusiness/files/2013/10/ecb-hq.jpeg](https://www.google.co.uk/url?sa=i&rct=j&q=&esrc=s&source=images&cd=&cad=rja&uact=8&ved=0ahUKEwiP9KyFuJrKAhVHtBoKHQ94BX8QjRwIBw&url=https://www.ics.ie/news/view/1109&psig=AFQjCNGnX_jdmOVrnw3aGhEErqUPgE7Hbw&ust=1452350129478234)** | **[http://i.telegraph.co.uk/multimedia/archive/02129/BANK-OF-ENGLAND_2129155a.jpg](http://www.google.co.uk/url?sa=i&rct=j&q=&esrc=s&source=images&cd=&cad=rja&uact=8&ved=0ahUKEwi_7qKnuJrKAhWCqxoKHVRiDZcQjRwIBw&url=http://www.telegraph.co.uk/finance/bank-of-england/11968470/Bank-of-England-and-US-authorities-to-simulate-cyber-attack.html&psig=AFQjCNGdcsWR4kbPq3Mi6eEQleVjYCtYfQ&ust=1452350197279697)** |
| **The European Central Bank decreases interest rates in the Eurozone. What is likely to happen to the bond prices of German and French Government Bonds?** | **The central bank in the UK (Bank of England) increases interest rates.**  **What will happen to the price of UK government bonds?** |
| **Impact on Price of Bond:** | **Impact on Price of Bond:** |

In summary, interest rates and bond prices are said to have an inverse relationship – when interest rates in general rise, bond prices tend to fall , and vice versa.

**Look at the following three scenarios.**

**Think about whether the bonds will go up or down in value or stay the same?**

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| **Scenario** | **What will happen to the bond price?** |
| Buddy Inc is an oil exploration company that has just announced a significant discovery of easily accessible oil. What happens to the price of Buddy’s 5% coupon-paying bonds? |  |
| Anemone PLC’s sales have suffered due to a recession in its main market. Anemone has a number of 7% coupon-paying bonds in issue – what is likely to happen in their price. |  |
| Lakeground Inc announces a substantial equity issue aimed at reducing its debt burden. What is likely to happen to the price of Lakegound’s bonds? |  |