Bonds and Bond Derivatives

Second Edition

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This book is an introduction to bond markets and bond derivatives for students as well as for executives in commercial businesses and financial institutions. While many topics about debt instruments involve much mathematics, this text presents the essential elements in an intuitive and relatively nonmathematical way. For students, the book is designed to be the main text. This book is an introduction to bond markets and bond derivatives for students as well as for executives in commercial businesses and financial institutions. Bonds and bond characteristics encompass the wide sweep of fixed income securities. What distinguishes between bonds in a legal sense is the collateral pledged and the legal rights to this collateral. Most bonds have no specific security attached to them and really should be called “unsecured debentures.” The legal documentation for a bond and its bond characteristics is required to specify the terms for both interest and principal payments. Interest can be paid monthly, semi-annually or annually. This makes a difference to the compounding of the interest and will affect the trading of a bond. In North America, most bonds pay interest semi-annually. Types of Derivatives: Linear and Non-Linear. Trading Bonds: How are Bonds Traded? Latest Posts. In finance, a bond option is an option to buy or sell a bond at a certain price on or before the option expiry date. These instruments are typically traded OTC. A European bond option is an option to buy or sell a bond at a certain date in future for a predetermined price. An American bond option is an option to buy or sell a bond on or before a certain date in future for a predetermined price.