Task 1. **Reading Comprehension (5points)**

Read the following text and mark the statements as ***True*** or ***False***

Bonds

Companies finance most of their activities by way of internally generated cash flows. If they need more money they can either sell shares or borrow, usually by using bonds. More and more companies now issue their own bonds rather than borrow from banks, because this is often cheaper: the market may be a better judge of the firm's creditworthiness than a bank, i.e. it may lend money at a lower interest rate. This is evidently not a good thing for the banks, which now have to lend large amounts of money to borrowers that are much less secure than blue chip companies.
Bond-issuing companies are rated by private ratings companies such as Moody's and Standard &Poors, and given an "investment grade" according to their financial situation and performance, AAA being the best, and C the worst, i.e. nearly bankrupt. Obviously, the higher the rating, the lower the interest rate at which a company can borrow.
Most bonds are bearer certificates, so after being issued (on the primary market), they can be traded on the secondary bond market until they mature. Bonds are therefore liquid, although of course their price on the secondary market fluctuates according to changes in interest rates. Consequently, the majority of bonds on the secondary market are traded either above or below par. A bond's yield at any particular time is thus its coupon (the amount of interest it pays) expressed as a percentage of its price on the secondary market.
For companies, the advantage of debt financing over equity financing is that bond interest is tax deductible. In other words, a company deducts its interest payments from its profits before paying tax, whereas dividends are paid out of already-taxed profits. Apart from this "tax shield", it is generally considered to be a sign of good health and anticipated higher future profits if a company borrows. On the other hand, increasing debt increases financial risk: bond interest has to be paid, even in a year without any profits from which to deduct it, and the principal has to be repaid when the debt matures, whereas companies are not obliged to pay dividends or repay share capital. Thus, companies have a debt-equity ratio that is determined by balancing tax savings against the risk of being declared bankrupt by creditors.
Governments, of course, unlike companies, do not have the option of issuing equities. Consequently they issue bonds when public spending exceeds receipts from income tax, VAT, and so on. Long-term government bonds are known as gilt-edged securities, or simply gilts, in Britain, and Treasury Bonds in the US. The British and American central banks also sell and buy short-term (three-month) Treasury Bills as a way of regulating the money supply. To reduce the money supply, they sell these bills to commercial banks, and withdraw the cash

received from circulation; to increase the money supply they buy them back, paying with newly created money which is put into circulation in this way.

1. Banks' loan portfolios are now generally less secure than 20 years ago because blue chip companies issue their own bonds, and banks that receive deposits still have to lend money T F

2. Bonders can try to get their money at any time T F

3. If interest rates fall below a bond's coupon, the bond will probably set at above par T F

4. The fiscal system in most countries makes it advantageous for companies to issue bonds rather than stocks or shares as long as they make a profit T F

5. Governments systematically issue bonds to finance public spending T F

Task 2. Fill the gaps in the following email with ***one*** word in each space (15 points)

Dear Maria,

Here's a summary of our discussion yesterday and the decisions we 1…………… to.
We discussed 2……………. advertising medium would be 3………… suitable for our B2B software products and decided that 4……….. addition to our web-based advertising we should also 5……………use of the trade journals which companies of the type we supply software to are 6……………. to read.
We agreed that you would contact a couple of advertising agencies, who would 7……………… up with proposals and sample designs for our ads. We would also ask them to identify suitable journals and 8……………… us an estimate of the total cost of running the campaign.
We agreed that measuring the effectiveness of the advertising will be relatively easy to 9……………….. . Any customers acquired 10……..
the course of the campaign or shortly 11……………… will be asked how they heard 12…………….. us – by word of mouth or through our advertising. We will then, in due course, be 13……………….. to measure 14…………….. effective the advertising has been in relation to the money we have invested 15……………… it.

Sincerely,
Carlo