Bond Truths and Facts

1. **When real interst rates are low, there is a greater incentive to borrow and fewer incentives to lend.**

2. **The return on a bond will not necessarily equal the interest rate on that bond**

3. **Prices and returns for long term bonds are more volatile than shorter term bonds.(because of interest rate risk)**

4. **Holding everything constant, an increase in wealth raises the quanitity demanded of an asset.**

5. **An increase in an assets expected return relative to other assets, raises the quanitity demanded of that asset.**

6. **Holding everything constant, if an assets risk rises relative to other assets the quantity demanded for that asset falls.**

7. **The more liquid an asset is relative to other assets, holding everything constant, the more desirable it is and the quanitity demanded will increase.**

When interest rates go down

Bond prices decline

When Interest rates go up

Bond prices go up