Bonds + Inflation

Answer key for the SSEPF3 and SSEPF4 Level 2 worksheets: What a Bond Actually Is and Staying Ahead of Prices.

FOR TEACHER USE: WHY THIS IS HERE

In the core SSEPF set, bonds appear only as one rung on a risk-return ladder, and inflation gets one real-return table. These two sheets give both topics the depth a student needs to understand a savings bond, a 401(k) bond fund, or why a fixed-rate loan can become a good deal. Pair SSEPF3 L2 with the SSEMA2 L2 "Rate Seesaw" sheet if the class also takes Macroeconomics.

Facts current as of September 2026: the $10,000 annual electronic I bond limit, and the end of paper I bonds bought with tax refunds (January 1, 2025). Rates in the problems are examples; the Track It boxes send students to current figures.

What a Bond Actually Is (SSEPF3 L2)

ANSWER KEY

Section 1: Issuer, Riverbend County School District. Interest, 3.5% × $5,000 = $175 per year. Each payment, $87.50. At maturity, the $5,000 face value (plus the last interest payment). Type, municipal (a general obligation bond is backed by the issuer's taxing power). AA is strong, second only to AAA.

Section 2 risk rank: Treasury 1, Municipal 2, Investment-grade corporate 3, High-yield corporate 4. Accept municipal and investment-grade corporate in either order with a reason; municipal defaults have historically been rare. Tax question: the tax savings can make a lower municipal rate worth more after taxes than a higher, fully taxed corporate rate, and the savings grow as the tax bracket rises.

Section 3: $400; $460; $540; $790. a) $390 more per year. b) 1.4 percentage points. c) The risk that the company cannot make its payments or repay the $10,000 (default risk).

Section 4: $1,000 at maturity. The drop is only a loss on paper; it becomes a real loss only if the investor sells before maturity. (There is a hidden cost worth raising: the money is stuck earning a below-market rate.)

Discuss: Bonds usually swing less in value, so money needed soon is less likely to be down right when it has to be spent.

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Staying Ahead of Prices (SSEPF4 L2)

ANSWER KEY

Section 1: Savings −2.5% (inflation wins, the saver loses buying power). High-yield +1.0% (saver ahead). Car loan 4.0% real cost (the lender comes out ahead). Same loan with 8% inflation, −1.0% (the borrower comes out ahead, repaying with cheaper dollars).

Section 2: Cash, $5,000 ÷ 1.344 = about $3,720. Savings, $7,401 ÷ 1.344 = about $5,507. Cash lost about $1,280 of buying power; the savings plan beat inflation by about $507 in today's dollars.

Section 3: a) 1.2 + (2 × 1.0) = 3.2%. (Treasury's exact formula adds a tiny extra term, fixed × inflation, which here brings it to 3.21%.) b) $1,040 principal; 1.5% × $1,040 = $15.60 interest.

Section 4: Fixed $1,400 + $1,400 = $2,800. Variable $1,200 + $1,800 = $3,000. The fixed borrower paid $200 less. A variable rate can still make sense for someone who expects rates to fall or plans to pay the loan off quickly, before a rate reset.