What is a bond?

KS3 KS4 Ages 11-18 ⏰ 2 min read

When you lend money to a friend, you probably expect them to pay you back, right? A **bond** works exactly the same way, except instead of lending to your mate down the street, you're lending to huge organisations like governments or big companies.

Here's how it works: Let's say the government needs to build a new hospital but doesn't have enough cash lying around. Instead of asking for donations, they create bonds — which are essentially fancy IOUs. When you buy a bond, you're lending them money. In return, they promise to pay you back the full amount after a certain time (maybe 5 or 10 years), plus they'll pay you a little extra money called **interest** along the way.

Think of a bond like lending money to build a lemonade stand. Your friend needs £100 to buy supplies, so you lend it to them. They promise to pay you back £100 in six months, plus £5 extra for being such a helpful friend. That £5 is like the interest on a bond — your reward for lending your money.

Who Issues Bonds?

Governments issue bonds when they need money for big projects like roads, schools, or hospitals. Companies issue **corporate bonds** when they want to expand their business — maybe Apple wants to build a new factory, or a supermarket chain wants to open more stores.

The interesting bit is that different borrowers are riskier than others. The UK government is extremely likely to pay you back, so their bonds pay lower interest rates. A small company that might go bust pays higher interest rates because you're taking a bigger risk by lending to them.

Why Do People Buy Bonds?

Bonds are popular with people who want their money to grow steadily without the wild ups and downs of the stock market. Your gran might buy government bonds because she knows she'll get her money back plus a predictable amount of interest.

Bonds also help the world function properly. Without them, governments couldn't build infrastructure and companies couldn't expand to create jobs. When you buy a bond, you're not just making money — you're helping fund the things that make society work.

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