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Indexed Annuity Bond (IAB); 2.2.5 Indexed Zero-Coupon Bond (IZCB); 2.2.6 Other types of indexed bonds; 2.2.7 Cash flows of the different structures; 2.2.8 Factors that influence the choice of security design; 2.3 Application of the index to the cash flows; 2.3.1 The problem of the indexation lag; 2.3.2 Why indexation lags are necessary; 2.3.3 How to minimize the indexation lag; 2.3.4 Full or partial indexation?; 2.4 The impact of tax regulations; 2.4.1 Uncertainty of post-tax real yields 2.4.2 The effect of income accrual rules 2.5 Options on indexed bonds; 2.5.1 Callable bonds; 2.5.2 Puttable bonds; 2.5.3 Convertible bonds; 2.6 Method of issue; 2.6.1 Pricing; 2.6.2 Cost-effectiveness and market development; 2.6.3 Consistency with other instruments; 2.6.4 What happens in practice?; 2.7 Summary; Appendices; A2.1 Calculating the base annuity payment for Indexed Annuity Bonds (IABs); A2.2 Barro's proposal for revising the inflation adjustment of payments on index-linked gilts; 3 Why Invest in Indexed Debt?; 3.1 Reducing inflation risk; 3.2 Relative stability of returns 3.3 Performance relative to conventional bonds and equities 3.4 Total return opportunities; 3.5 Duration and other cash flow considerations; 3.6 Taxation; 3.7 Liquidity; 3.8 Other potential deterrents to investing in indexed bonds; 3.9 Alternatives to indexed bonds; 3.9.1 Treasury bills; 3.9.2 Equities; 3.9.3 Property; 3.10 Summary; 4 Why Issue Indexed Bonds?; 4.1 Why governments issue indexed bonds; 4.1.1 Reducing borrowing costs: the role of inflation expectations; 4.1.2 Reducing borrowing costs: saving the inflation risk premium; 4.1.3 Risk management 4.1.4 Inflation-indexed bonds and monetary policy 4.1.5 Maintaining long-term capital markets in difficult economic conditions; 4.2 Why private corporations issue indexed bonds; 4.3 The relative scarcity of index-linked bonds; 4.4 Summary; 5 Inflation and Real Interest Rate Analysis; 5.1 Measures of real interest rates; 5.1.1 Real gross redemption yields; 5.1.2 Hedge ratios: the duration and "beta" of inflation-indexed bonds; 5.1.3 The term structure of real interest rates; 5.2 Measures of inflation expectations; 5.2.1 Break-even inflation rates; 5.2.2 The "inflation term structure" 5.2.3 The inflation risk premium and bond convexity

#### Sommario/riassunto

The global market for inflation-indexed securities has ballooned in recent years, and this trend is set to continue. This book examines the rationale behind issuance and investment decisions, and details the issues facing anyone who designs indexed securities, illustrating them wherever possible with actual examples from the international capital markets. In particular, an extensive review of indexed debt markets throughout the world is provided - including for the first time, a comprehensive and consistent set of cash flow and price-yield equations for the instruments already in existence