Perpetual knowledge bank series: par value

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Par value is the nominal or face value of a bond, meaning it is a static value determined at the time of issuance and, unlike market value, doesn't fluctuate. In other words, par value is the term used to describe the principal amount lent to the bond issuer, which they commit to repay to investors when the bond matures.

For the company issuing a bond, the par value serves as a benchmark for pricing. When the bond is traded, the market price of the bond may be above or below par value, depending on factors such as the level of interest rates and the bond's credit status. It should be noted that issuers do not always issue bonds at par value. It could be at a discount (below par) or a premium (above par). The par value remains the same and is not affected by the issue price. Moreover, the redemption of bonds on maturity could be at par value or a premium, in line with the terms of issue.

As mentioned, factors such as interest rate prevailing in the market and the credit status of the bond affect the market price of the bond. If it is trading above par, then the bond is trading at a premium as it offers a higher interest rate than the current market rate and an investor would pay more as they expect a higher return. However, a bond trading below par has a lower interest rate than the market rate.