What is the yield of a bond?
Bond yield is the percentage return the investor receives on his investment.

One of the chief reasons why investors buy bonds is the interest they earn every year. While yield refers the return earned by the investor on a bond, it is important to note that the 'current yield' of a bond is different from its 'nominal yield' (also known as the coupon rate).

Let us understand these two concepts in detail and learn the difference between the two.

Nominal yield or coupon rate
Nominal yield or coupon rate is the predetermined rate of interest of the bond. It is usually a percentage of the bond value.

So, for instance, if the face value of your bond is Rs 1,000 and the coupon rate is 9 percent, you are entitled to receive Rs 90 every year on your bond.

Hence,

Nominal yield = Annual interest payment/Face value of the bond

Current yield
Since bonds are bought and sold in the secondary market, the 'market price' of your bond is likely to fluctuate. In such a scenario, the rate of return on your bond would be different from the coupon rate. This rate of return is known as the current yield.

Let us use the above example to understand the concept of current yield better.

The face value of your bond, when you invested in it, was Rs 1,000 with a coupon rate of 9 percent. So, accordingly, you receive Rs 90 every year. However, due to volatile market conditions, say its market price goes down to Rs 900. Since you are entitled to receive a predetermined amount as interest, you continue to receive Rs 90. So in this case, the current yield of your bond will be Rs 900/Rs 90 = 10 percent.

Hence,

Current yield = Annual interest payment/Current market price of the bond