

Capital Markets

Finance 238/738
Fall 2012
Huntsman 270

FINC 738-1	Tuesday/Thursday 9:00-10:20
FINC 738-2	Tuesday/Thursday 10:30-11:50
FINC 238-1	Tuesday/Thursday 12:00-1:20

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Office Hours: TBA

Review Sessions:

Teaching Assistants:

E-mail: Please put FINC238/738 in the subject line or it will get overlooked amongst the spam. Any email with a blank subject line goes straight to the spam folder. I will endeavor to respond to any email by the end of the next business day. It may not be possible for me to respond to emails sent late the night before the homework is due. If you do not hear from me within 24 hours you can assume that the email was eaten by the computer and you should resend it. If you need a faster response, call me on my mobile phone. I would not give out the number if I did not want you to use it.

If I discuss something with you in class, it is a good idea to confirm the discussion in an email in case I forget. It is your responsibility to email me. Nothing that we discussed verbally is official until you receive an email confirmation from me.

Linked-In: LinkedIn.com is a useful social network for business professionals. I like to keep in touch with my alumni, and linkedin.com is a great way to do it. So link-in to James J. Angel, angelj@georgetown.edu.

Twitter: Follow me on Twitter at @GuFinProf

Course Objectives

The capital markets connect the suppliers with the users of capital. In this course, we will explore many different areas within the capital markets. This course will be useful for those interested in

- Asset management
- Corporate finance
- Sales and trading
- Investment banking
- Private equity
- Wealth management
- Regulation
- Securities law

Overlap with other classes

There will be some unavoidable overlap with other courses in corporate finance, investments, and derivatives. This repetition will reinforce some of the basic concepts.

Course materials:

Most required readings course materials will be delivered via Canvas.

Homework assignments, lecture notes, state nuclear secrets, and other cool stuff will be available on Canvas. Keep checking.

Textbooks:

As you have already used either Ross, Westerfield, and Jaffe's *Corporate Finance* or Brealy, Myers, and Allen's *Principles of Corporate Finance* in the prerequisite classes, you should use these books as references. From time to time I will refer to various chapters in these books.

Recommended Reading:

Current Issues of *The Wall Street Journal*, and business magazines such as *Forbes* or *Business Week*. As business practitioners, you should read *The Wall Street Journal* daily. Since the U.S. financial press tends to be rather provincial, you should also regularly read a business publication that is not published in the U.S., such as the *Financial Times* or the *Economist*.

Course Requirements and Grading:

The weight for each component is listed below:

35%	Homework
60%	Quizzes
5%	Class participation bonus
ϵ	Random noise

I reserve the right to change this weighting scheme and to administer or not administer quizzes without warning.

After calculating the raw score based on the above weights, I will then adjust the raw scores for class participation as described below. I will then rank all of the scores and assign letter grades in order of the rankings in to achieve consistency with other Wharton classes and Wharton grading policies. **Thus, it is your total score relative to other students, not the raw score, which determines your final grade.** Business school is not like grade school where “95 = A” and everyone can get an A. Instead, it is more like the real world in which relative performance matters.

Just remember that five years from now, no one will care what grade you received, only what valuable skills you have mastered. However, it is my fervent hope that jumping through the hoops needed for a good grade will help you to attain valuable skills.

Class attendance

I expect you to attend every class and will take attendance.

Class participation

The class participation score is an arbitrary score based on my faulty recollection of your contribution to the class discussion. To improve your score, I suggest the following:

- Attend every class and sit in the same location
- Always display your name card
- Be prepared to discuss the topic of the class. Have questions ready.
- Ask questions when you don't understand something. If you don't get it, chances are a lot of your colleagues don't either, and they are grateful when someone else asks.
- Make comments that are helpful to your fellow students' understanding of the situation. Ask yourself "Will this comment or question help my fellow students?" Just showing off your knowledge is a waste of time unless it helps your fellow students learn from you.
- Avoid taking the class down unrelated tangents.
- Don't even think of opening your laptop or checking your email.

Laptop Computer Policy

The use of notebook computers in class is disruptive due to the noise made from clicking keys, various Windows noises, and blocked eye contact, along with the temptation to check email and eBay. Therefore, **laptop computers must be closed during class.** Unless otherwise specified, all digital devices must be off. Electronic devices that are used in class may be impounded, confiscated, or sold on Craig's List.

Cell phones

Please set your cell phone to stun (silent mode) before class. (Let the person who is without sin cast the first cell phone...<oops>) If you forget and your cell phone goes off, please act embarrassed and apologetic even if you are not. If you absolutely have to take that call from a potential employer, you can make amends to your classmates by immediately ordering pizza for the entire class.

Special needs

If you have any special needs or require accommodations for disabilities, please don't hesitate to let me know. I am a strong believer in the Americans with Disabilities Act.

Guest speakers

We will have several guest speakers at times outside of the usual class sessions. I expect you to attend all of the guest speakers unless you have a class conflict. **Attendance will be taken.**

Deliverables

There will be approximately one deliverable each week, either a quiz or a homework assignment. All homework is to be turned in via Canvas. Please do not send it via regular email. Paper submissions may get lost.

Collaboration Policy

On all take home work, you may discuss the assignment with anyone you want. I expect that you will turn in your own individual solutions unless the assignment is an explicit group exercise.

Quizzes

From time to time I may administer surprise quizzes with or without warning. I will drop the lowest quiz and use the average of your other quiz scores. **There are NO makeup quizzes.** If you miss a quiz, I will just use the rest of your work to calculate your grade.

Quizzes will be closed book and closed notes unless otherwise specified. You may use your financial calculator, but your notebook computers must be closed.

Grading

Please write neatly on the quizzes and put boxes around numerical answers. You must show your work in order to get complete credit. For example, if you use your financial calculator you must display enough of the keystrokes used so that I can reproduce your answer. Partial credit will be given when earned. I want to make sure that your grades are as accurate as possible. If you disagree with your grade on an quiz, I will be happy to regrade the *entire* quiz upon written request outlining the nature of the disagreement. However, your grade may go down as well as up.

I recommend that you keep a photocopy of all work you turn in. This will help you in the unlikely event that your paper is lost, and will allow you to have access to your work pending its grading and return to you. Also, please staple loose pages together so that they do not get lost. Loose pages that are lost are your problem, not mine.

Video recording

Note that the classroom has several video cameras. Each class may be recorded with or without warning. Anything you say or do in the classroom may be recorded for posterity. Or it may not. In this security monitored world you should assume that you are being video recorded at all times.

Chartered Financial Analyst (CFA) program.

I advise those of you who are serious about a finance career to earn your Chartered Financial Analyst (CFA) charter, which is quickly becoming a union card in the asset management industry. To earn the charter, you have to pass three nasty finance exams spread over three years, have some work experience, pay your dues, and so forth. The exams are usually given on the first Saturday in June or December, but it pays to sign up early. Like NOW. For more information see www.cfainstitute.org.

Calculators

As business professionals, you should have a financial calculator that can perform basic business calculations such as loan calculations, IRR, and NPV. If you plan to take the CFA exam (which I highly recommend for serious finance types), you should be aware that **the only permitted calculators on the CFA exam are the HP 12-C and the TI BA-II**. In terms of style in a professional setting, the HP12-C is the workhorse of the financial world. (See “Wall Street’s Cult Calculator Turns 30, *Wall Street Journal*, May 4, 2011, <http://online.wsj.com/article/SB10001424052748703841904576257440326458056.html>. It does, however, take a little getting used to. Using that graphing calculator from high school makes you look like a geek. Although my favorite calculator is the HP 17 BII+, from experience a plurality of students purchase the TI BA-II. **Thus, all of my class demonstrations will use the TI BA-II+. Class time will not be spent on other models of calculators.**

There are many smart phone apps that provide standard financial functions such as time value of money calculations, IRR, NPV, etc. As the field is developing rapidly, I don’t yet have a recommendation.

In the past, I have not permitted smart phones to be used on exams because of concerns about academic integrity. However, I am now experimenting with permitting smart phone apps to be used on an exam. However, **IF YOU USE A SMART PHONE ON A TEST YOU GIVE ME THE RIGHT TO SNOOP THROUGH YOUR SMART PHONE DURING AND AFTER THE TEST**. Any attempt to cheat with a smart phone during a test will leave electronic tracks that will result in a rapid and painful conviction for cheating and your possible dismissal from Wharton, so don’t do it.

Academic Regulations

The Code of Student Conduct and the Code of Academic Integrity are incorporated herein by reference.

Course Calendar - (Tentative: this schedule will change to accommodate the availability of guest speakers, unanticipated market events, and the whims of fate.)

Class	Date	Topic	Things to Have Read/Done <i>BEFORE</i> Class!
1	9/6	Introduction Role of capital markets Suitability v. Fiduciary Duty Bloomberg 101	
2	9/11	Review of basics Bond arbitrage Duration and convexity	Assignment # 1: Review Exercises RWJ: Chapters 5 (review), 20 Long-Term Debt OR BMA: Chapter 3(Valuing Bonds) and 23/24
3	9/13	Muni bonds Penn's 100 year bond	Read: Penn Bond Prospectus Special Guest: 10:30?? Steve Golding
4	9/18	Equity market structure	Quiz # 1
5	9/20	Short selling and stock lending	Special Guest: 5:00 PM Keith Babbitt
6	9/25	Algorithmic and low latency ("high frequency") trading	Assignment #2: HW/Case
7	9/27	Technology: From the Flash Crash to the Nightmare	
8	10/2	JOBS Act and the OTC markets Cromwell Coulson, CEO of OTC Markets Inc	Special Guest: 5:00 PM Cromwell Coulson
9	10/4	Venture capital	Quiz #2
10	10/9	IPOs and the Facebomb	Assignment #3: HW/Case
11	10/11	Sell-side and buy-side research	
12	10/16	Exchange offers	Quiz # 3
13	10/18	Insider trading: Staying out of jail	
14	10/23	Regulation: SEC FINRA, ESMA	Assignment #4: HW/Case
15	10/25	Corporate debt issuance More fixed income	
16	10/30	Bank debt and bank runs	Quiz #4

17	11/1	Money market instruments: Commercial paper, auction rate products	
18	11/6	Corporate Elections, Proxy Contests, and Corporate Governance	Assignment # 5: HW/ Case
19	11/8	Repo	
20	11/13	Money Market Mutual Funds and their enemies	Quiz # 5
21	11/15	Securitization and Asset Backed Securities	
22	11/20	Mortgage Backed Securities	Assignment # 6: HW/Case
	11/22	Thanksgiving	Relax
23	11/27	Credit Default Swaps	
24	11/29	More swaps	Quiz # 6
25	12/4	The Panic of 2008	
26	12/6	Review	Assignment # 7: HW/ Case