

# CAPITAL MARKETS – FNCE 238/738

Professor Krista Schwarz

Spring 2013

**Class Hours** (*unless otherwise noted on Canvas*):

Tuesdays & Thursdays

|   |                     |
|---|---------------------|
| FNCE 238 01                                     | 10:30 am – 11:50 am |
| FNCE 738 01                                     | 12:00 pm – 1:20 pm  |
| FNCE 738 02                                     | 1:30 pm – 2:50 pm   |
| Combined sections for featured speaker sessions | 4:30 pm – 5:50 pm   |

**Location** (*unless otherwise noted on Canvas*): JMHH 265 for non-speaker sessions

**Teaching Assistants:**

TAs can help you with your questions about the course material or structure. Each TA will address questions in office hours and by e-mail *according to the following schedule*:

## **January 10 – February 24**

*Case 1-3, Quiz 1-4*

**Christian Goulding**, [goulding@wharton.upenn.edu](mailto:goulding@wharton.upenn.edu)

TA Office Hours: **Monday, 3:00 pm – 4:30 pm**, SH-DH 2300, Desk B

**Wednesday, 1:30 pm – 3:00 pm**, SH-DH 2300, Desk A

## **February 25 – March 31**

*Case 4-5, Quiz 5*

**Vadim Levit**, [levitv@wharton.upenn.edu](mailto:levitv@wharton.upenn.edu)

TA Office Hours: **Monday, 5:30 pm – 7:00 pm**, SH-DH 2300, Desk C

**Friday, 3:00 pm – 4:30 pm**, SH-DH 2300, Desk C

## **April 1 – April 23**

*Case 6-7, Quiz 6*

**Lauryn LePere**, [llepere@wharton.upenn.edu](mailto:llepere@wharton.upenn.edu)

TA Office Hours: **Monday, 10:30 am – 12:00 pm**, SH-DH 2300, Desk B

**Wednesday, 1:30 pm – 3:00 pm**, SH-DH 2300, Desk A

**Professor Office Hours** (SH-DH 2420B): Friday, 10:30am-noon, or by appointment.

## **Motivation and Overview**

In textbook finance, agents simply borrow and lend at the riskfree rate. In practice, it's not quite so straightforward – liquidity, credit risk, and borrowing constraints are all very important, as recent events have shown. The objective of this course is to give you a solid foundation in the framework and evolution of U.S. capital markets, and to give you the tools to understand the costs and benefits for participants in various asset classes, which you can use in your post-Wharton career to evaluate future market innovations. We will consider the motivations of issuers and investors across different asset classes, exploring the design, issuance, and pricing of financial instruments as well as investor strategies, and associated economic and financial stability issues. We will draw from events in the recent financial crisis, which illustrate financing innovations and associated risks, as well as policy responses that can change the nature of these markets. We will also discuss future trends in capital markets.

## Course Structure

The class environment is geared to help you develop your own human capital through a combination of:

- (1) **BACKGROUND LECTURES**, to provide a structured introduction to market concepts and asset classes.
- (2) **TOPICAL CASE STUDIES**, selected to put this information into a real-life context and to give us an interactive setting to discuss and reflect on some of the drivers of market events and structure.
- (3) **SHORT QUIZZES**, to help you identify the relationships among and common themes in the topics we cover through periodic review of the material.
- (4) **FEATURED SPEAKERS**, leading practitioners and policy-makers in capital markets, to gain first-hand insight into the markets we cover in class, and importantly to appreciate each speaker's unique perspective and opinion, driven by their own role and experience in capital markets.
- (5) **CASE PROJECT of CHOICE**, to give you the flexibility to explore a market or topic in which you have a particular interest in learning more about.

## Grading

Your grade for the course will be determined by quizzes, case write-ups, a case project, and participation. There will be a total of 100 points possible, and the points are allocated as follows:

|                        |   |
|------------------------|---|
| 6 Quizzes              | 10 points each; 50 points possible (lowest score is dropped)  |
| 7 Group Case Write-ups | 5 points each; 35 points possible   |
| Case Project           | 10 points possible  |
| "Top 3" Point Award    | 5 points possible; the "top 3" case write-ups are awarded 1 point, the "top 3" case projects are awarded 2 points |
| Class Participation    | Can affect your grade at the margin   |

**Grades are non-negotiable, and the quality of your written work and participation is a matter left to my judgment. This is an elective course, so if you do not agree to these terms, then you should consider a different course.**

The *only* nature of grade appeal that will be considered is one where your points were not added up correctly or a correct answer was overlooked. This type of appeal must be submitted to me, in writing, within one week after the grade in question is received.

All assignments must be submitted at the dates/time that they are due as specified on Canvas (before class). **Late assignments will not be accepted under any circumstances.** Canvas will not accept late uploads. A late or missing case assignment will result in a zero grade.

*Academic integrity is taken seriously. Submitted assignments must be your work only. Failure to comply with this code of ethics, will at a minimum, result in a zero for the assignment, and may result in an automatic failing grade for the course and referral to the Office of Student Conduct. Refer to the Code of Academic Integrity if you have any questions.*

## Course Contract

**Students wishing to receive credit for this course must read and electronically sign the "Course Contract" posted on the Canvas Assignments page.**

## Course Material

**You are also responsible for any and all course content that is discussed in class.** I will post slides on Canvas ahead of each lecture-based class. Case materials are the only *required* readings for the course. I will post *supplementary* readings for those interested in additional detail. There is no course text book.

## Case Write-Ups

**Class Discussion:** We will discuss cases on the day they are due in class, and your participation in these discussions is highly encouraged. Quiz questions may be drawn from these case discussions. I will not provide written case solutions, but may post some slides to help guide the discussion.

**Group work:** Work in groups of three to six students on case write-ups.

- **Register your group on Canvas no later than Thursday, January 17**, as this is when the first case is due. You may choose your own group members, who may span sections.
- Discussing the material with your classmates enhances your understanding, and raises points that alone you may not have considered. Also, communication and negotiation skills that you exercise through joint project work will be invaluable for your career.
- Turn in a single write-up for the group, with each of the participant names noted. All members of a group will receive the same score.

**Case Reading:** Case readings will be available via the Study.net link. There may be additional required case readings posted on the Canvas Assignments section.

**Write-Up Length:** No cover page. Maximum of 2 single-sided pages in length, double spaced, 11-12 point font, reasonable margins.

**Write-Up Exposition:** Case questions will be posted on Canvas. Address each case question in turn.

- State your argument, and support it. Points are deducted for inaccuracies and lack of reasoning, but not for views. Focus on key points (pick your battles). Don't just summarize the entire case.
- Clear and concise writing is a valuable skill in any profession. You have a limited amount of space, use it efficiently. Be attentive to grammar, spelling, and presentation.

**Grading:** Each case write-up will be scored out of 5 possible points. A "top 3" point (separate from the case write-up score) will be awarded to the three top write-ups of each case, judged to be the most clear, concise, persuasive, correct, and complete analyses.

## Quizzes

There will be six short in-class quizzes, lasting about 20-25 minutes each, on the dates posted on Canvas. **Bring a pen and a non-programmable calculator to all quizzes.** Quiz questions will be drawn from the material covered since the previous quiz. Throughout the semester we will build on concepts covered in earlier sessions. The quizzes can be a helpful tool to check your understanding along the way. Your quiz-prep review of the material will highlight the relationships across topics we cover.

**Grading:** **There will be NO make-ups.** Your lowest score will be dropped. This provides for *any* eventuality whereby you miss a class during which a quiz takes place. Each quiz will be scored out of 10 possible points. I will not return quiz answer sheets to you, but you are welcome to review the quiz questions and your answer sheet in my office during my office hours or by appointment.

## Participation

### Featured Speakers:

Speaker sessions are a **required** part of this course, and are scheduled in lieu of the regularly scheduled lectures on the dates that they take place (times and locations are detailed on Canvas). **Attendance will be taken.**

- The speakers are senior figures in industry and policy-making organizations. Their insights will complement and build on material that we cover in lectures and cases. Each speaker has played a key role in some area of capital markets and brings a particular view and personality to our class, shaped by his or her own first-hand experience and subject expertise.

### Class Discussion:

Class participation contributes to our collective goal of understanding the course materials by exploring a variety of reasonable approaches together. Class discussion is enriched by well-reasoned points, constructive questions, or other relevant insights that encourage learning. Emphasis is not on the duration of your *air time*, or on getting the *right* solution.

### Decorum:

- **I strongly discourage the use of laptops, iPads, phones, or other electronic devices in class.** E-mailing, texting, and internet use during class is disruptive to the students around you, and to me. If you feel very strongly about taking electronic notes in class, please clear this with me beforehand.
- **Please use name tent cards (MBAs and undergraduates)!** If you do not have a card, please make one.
- **Please sit in the same seat throughout the semester to help me make your name/face association.**
- Please keep entry/exit to a minimum once class has started.

**Grading:** While there is not an explicit participation grade, class participation can help your grade at the margin. What does this mean? If your final grade is on the border (for instance, you have an A- and are 1 point away from an A), then outstanding class participation can bump you up to the next grade. Outstanding class participation is such that I have a **familiar and positive association** with your name and face through **in-class (or in speaker session) comments, responses, and attendance**. You are always welcome to visit my office to ask questions or discuss the material, but this will **not** earn credit toward class participation.

## Case Project

The case project may be completed as part of a group or may be completed individually. Individual and group projects will be held to the same standards in grading. Each member of a group will receive the same score.

The case project is an opportunity for you to pick a topic in capital markets in which you are particularly interested, and to research the facts and organize your thoughts on this topic in the framework of a presentable case discussion.

- You may draw topic ideas from material that we touched on in class, but the concepts and discussion that comprise your project should not duplicate those that we learn in this course. “Capital markets” is a very broad subject area, and our in-class coverage is limited to the number of days that we have together. There are many markets, events, and ideas that we may not have the opportunity to cover in depth, but that are excellent topics to draw from for the case project.
- For instance, a case project could focus on a significant capital market event (the Swiss exchange rate floor, the flash crash, the S&L crisis, Black Monday, the 1907 Panic, etc.), an asset class (interest rate futures, foreign currency swaps, etc.), or an important market topic or concept (the role of algorithmic trading, the effect of official Chinese asset purchases on U.S. capital markets, etc.).

**The components of the case project that should be completed and submitted are as follows:**

**Due Thursday, March 14**

**(1) Sign up for Project Group on Canvas**

- You may work individually or with up to 6 team members (I encourage group work).
- You must sign up for a project group on Canvas, even if you are working individually.
- You will receive 1 point toward your final Case Project score by signing up your project group on Canvas *on time*.

**(2) Submit 2-3 sentence Topic Summary**

- The summary is assigned to motivate you to organize your thoughts on this project early on. You will only receive feedback on your summary if it does not seem to be headed in a reasonable direction.
- You will receive 1 point toward your total Case Project score by submitting the topic summary *in on time*.

**Due Tuesday, April 23**

**(3) 5-15 pages of background case reading material**

- This may be a single published article (if the article lends itself very well to your project as is), or a collection of parts of existing articles, or it can be a write-up of your own that references some existing literature on the subject.
- In all cases, always include any references that you use.
- Charts, figures, appendices, etc., are optional.

**(4) 4-6 case discussion questions** that can be answered through the provided background reading

- Questions may teach a concept or emphasize an important case-related point through an explicit answer.
- Or, questions may raise issues that are subject to debate and discussion and thus have more than one response that could be considered acceptable.

**(5) 2-4 pages of case discussion**, guided by the case questions

- If questions are subject to debate, please present both sides of the argument.
- Charts, figures, appendices, etc., are optional.

**Grading:** The case project will be scored out of 10 possible points. Two of the 10 points will already be scored by March 14, depending on whether you have submitted your project topic summary and signed up your project group on time. Two “top 3” points (separate from 10 possible points for the project score) will be awarded to the top three projects submitted, judged as the most well-constructed, accurate, and complete works that communicate relevant material in an intuitive and insightful way.

## Course Outline

**Note:** This course outline is **tentative**. Both the topics covered and the dates on which they are covered are subject to change and will be updated on Canvas.

| CLASS SESSION | DATE                  | TOPIC   | DELIVERIBLES & Change in LOCATION/TIME               |
|---------------|-----------------------|---|--|
| 1             | Thursday, January 10  | Lecture: <b>Overview and Intro to Monetary Policy</b>   |  |
| 2             | Tuesday, January 15   | Lecture: <b>Repo markets</b>  |  |
| 3             | Thursday, January 17  | Case 1: <b>Tip of the Iceberg: JP Morgan Chase and Bear Stearns</b>   | <b>Case 1 DUE</b>                                    |
| 4             | Tuesday, January 22   | <b>QUIZ 1</b>   | <b>QUIZ 1</b>  |
| 5             | Thursday, January 24  | TBA   |  |
| 6             | Tuesday, January 29   | Lecture: <b>Treasury Markets</b>  |  |
| 7             | Thursday, January 31  | Case 2: <b>Arbitrage in the Government Bond Market?</b>   | <b>Case 2 DUE</b>                                    |
| 8             | Tuesday, February 5   | <b>QUIZ 2</b><br>Lecture: <b>Credit Risk and Corporate Debt</b>   | <b>QUIZ 2</b>  |
| 9             | Thursday, February 7  | Featured Speaker: <b>Josh Frost</b><br><b>Vice President and Director of Treasury Markets,</b><br><b>Federal Reserve Bank of New York</b>                     | <i>Time &amp; Location</i><br>4:30 pm<br>SH-DH, #351 |
| 10            | Tuesday, February 12  | Lecture: <b>Credit Default Swaps</b>  |  |
| 11            | Thursday, February 14 | Case 3: <b>The Weekend that Changed Wall Street</b>   | <b>Case 3 DUE</b>                                    |
| 12            | Tuesday, February 19  | <b>QUIZ 3</b>   | <b>QUIZ 3</b>  |
| 13            | Thursday, February 21 | Featured Speaker: <b>Lee C. Buchheit</b><br><b>Partner, Cleary Gottlieb Steen &amp; Hamilton (NYC)</b><br><b>Lead advisor to Greece on debt restructuring</b> | <i>Time &amp; Location</i><br>4:30 pm<br>ANNS, #110  |
| 14            | Tuesday, February 26  | Lecture: <b>Bank run risk</b>   |  |
| 15            | Thursday, February 28 | <b>QUIZ 4</b><br>Case 4: <b>AIG – Blame for the Bailout</b>   | <b>QUIZ 4</b><br><b>Case 4 DUE</b>                   |

|    |                    |   |  |
|----|--------------------|---|--|
|    |                    | -----SPRING BREAK-----  |  |
| 16 | Tuesday, March 12  | Featured Speaker: <b>Matthew Rutherford, Assistant Secretary for Financial Markets, U.S. Treasury Department</b>    | <i>Time &amp; Location</i><br>4:30 pm<br>SH-DH, #351                   |
| 17 | Thursday, March 14 | TBA   | <b>CASE PROJECT: PROJECT GROUPS and 2-3 sentence TOPIC SUMMARY DUE</b> |
| 18 | Tuesday, March 19  | Lecture: <b>Securitization</b>  |  |
| 19 | Thursday, March 21 | Case 5: <b>A Tale of Two Hedge Funds: Magnetar and Peloton</b>  | <b>Case 5 DUE</b>  |
| 20 | Tuesday, March 26  | <b>QUIZ 5</b>   | <b>QUIZ 5</b>  |
| 21 | Thursday, March 28 | Featured Speaker: <b>Michael Henriques Head of Fixed Income and Credit Investments, Magnetar Capital</b>            | <i>Time &amp; Location</i><br>4:30 pm<br>SH-DH, #351                   |
| 22 | Tuesday, April 2   | Lecture: <b>Liquidity and Market Making</b>   |  |
| 23 | Thursday, April 4  | Case 6: <b>UBS and Auction Rate Securities</b>  | <b>Case 6 DUE</b>  |
| 24 | Tuesday, April 9   | <b>QUIZ 6</b><br>Lecture: <b>Commercial Paper</b>   | <b>QUIZ 6</b>  |
| 25 | Thursday, April 11 | Featured Speaker: <b>Christopher Ricciardi Principal and co-founder, Mead Park Management Pioneer of CDO Market</b> | <i>Time &amp; Location</i><br>4:30 pm<br>SH-DH, #351                   |
| 26 | Tuesday, April 16  | Lecture: <b>Equity</b>  |  |
| 27 | Thursday, April 18 | Case 7: <b>Preparing for the Google IPO: A Revolution in the Making?</b>  | <b>Case 7 DUE</b>  |
| 28 | Tuesday, April 23  | <b>Course Wrap-Up</b>   | <b>CASE PROJECT DUE</b>  |