



**Wharton**  
UNIVERSITY of PENNSYLVANIA

## Capital Markets

Finance 238/738  
Spring 2014  
Huntsman 265

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

<b>Instructor:</b>	Professor James J. Angel, Ph.D., CFA
<b>E-Mail:</b>	<a href="mailto:angeljam@wharton.upenn.edu">angeljam@wharton.upenn.edu</a>
<b>Office:</b>	2437 SH-DH
<b>Phone Number:</b>	1.215-746-0497
<b>Fax:</b>	1.703.574.5656
<b>Mobile:</b>	1.703.851.8575
<b>Skype:</b>	JamesJAngel

**Office Hours:** Mondays and Wednesdays 2PM to 4PM, 2437 SHDH

### Teaching Assistants

Josh Bergman	516-713-8748	<a href="mailto:bergjo@law.upenn.edu">bergjo@law.upenn.edu</a>
Brandon Clark	281-740-1666	<a href="mailto:brclark@wharton.upenn.edu">brclark@wharton.upenn.edu</a>
Josh Kaminer	516-965-9223	<a href="mailto:jkaminer@wharton.upenn.edu">jkaminer@wharton.upenn.edu</a>
Kathy Lin	630-824-7999	<a href="mailto:linkathy@wharton.upenn.edu">linkathy@wharton.upenn.edu</a>

TA Office hours: Watch your email for announcements.

## Course Description

The capital markets connect the suppliers of capital (savers) with the users of capital (corporations and consumers) in an environment rife with asymmetric information. This course explores various features of the capital markets from the perspective of participants in the capital markets. While courses like Corporate Finance take the perspective of issuing corporations, and Asset Management has a buy side focus, this course has a distinctly sell-side focus. Participants will gain a solid understanding of the role

## Course Objectives

- Develop an understanding of the role and economics of financial markets
  - Asymmetric information
- Understand the role of professional ethics and legal compliance
  - Know your customer rules
  - Insider trading laws
  - Importance of compliance obligations
- Build upon prior course work to extend and consolidate knowledge of fixed income and equity valuation.
- Develop an understanding of the security issuance process
  - Fixed income
  - Private and public equity
- Develop a basic grasp of the role of risk management in capital markets
  - Credit default swaps
- Understand the mechanics, microstructure, and current controversies of secondary market transactions
  - Fixed income
    - Impact of Volcker Rule and Basel III on market
  - Equity markets
    - Listed markets
    - Dark pools
    - OTC markets
    - Algorithmic trading
    - So-called “High Frequency” trading
  - Settlement institutions (DTCC et al.)
- Develop an understanding of the basics of capital markets regulation

## Overlap

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

## Meals with Faculty

Wharton operates two meal programs to facilitate communication. The Lunch and Learn program is a student-run program for undergraduates only and operated through the Undergraduate Division. The Student-Faculty Meals program is for both undergraduate and graduate students. Full details on the policy, including spending guidelines and restrictions, can be found at

<https://sharepoint.wharton.upenn.edu/finadmin/Documents/Fiscal%20Ops/Faculty%20Student%20Meals%20Program.pdf>.

**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 by the end of the next business day 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](mailto:angelj@georgetown.edu).

**Twitter:** Follow me on Twitter at @GuFinProf

## 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 Brealey, Myers, and Allen's *Principles of Corporate Finance* in the prerequisite classes, you should use these books as references if you still have them. From time to time I may refer to various chapters in these books.

## Other 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
$\epsilon$	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 and Other Electronic Devices 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 a 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.

Homework is graded on a 0-3 scale:

- 0: Not turned in
- 1: I can read your name
- 2: You made an effort, but there are major gaps or flaws
- 3: You have adequately answered all of the questions. The answers need not be perfect.

Fit and finish do NOT matter for the homework. Handwritten work is acceptable.

## **Video Recording**

Note that the classroom has several video cameras. I will make a best efforts attempt to video record each class and post the videos on Canvas in case you have to miss a class. However, technology sometimes fails, so do not count on it. Note that 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 everywhere and at all times even if you do not see any video cameras. Big brother is watching you.

## **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](http://www.cfainstitute.org).

## **Calculators**

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.**

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 as to the best app. You may use a smart phone app on a test, but if you do, **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 the program, 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, snow days, unanticipated market events, and the whims of fate.)

Class	Date	Topic	Things to Have Read/Done <i>BEFORE</i> Class!
1	1/16	Introduction Role of capital markets Suitability v. Fiduciary Duty Bloomberg 101	Super Optional: Ethical Standards for Stock Brokers: Fiduciary or Suitability,
2	1/21	Review of basics Bond arbitrage Duration and convexity	Assignment # 1: Review Exercises  Note on Treasury Bonds  Optional: Note on Bond Contracting  Optional: Review textbooks RWJ: Chapters 5 (review), 20 Long-Term Debt OR BMA: Chapter 3(Valuing Bonds) and 23/24
3	1/23	Muni bonds Penn's 100 year bond	<b>Read: Penn Bond Prospectus</b>  <b>Special Guest: 9:00am Penn Treasurer Stephen Golding</b>
4	1/28	More bonds/ intro to equity market structure	SEC Concept Release on Equity Market Structure, Pages 3-30
5	1/30	More equity market structure: Short selling, stock lending, and securities finance	Quiz 1 Read: Bank of England Introduction to Securities Lending
6	2/4		<b>Special Guest: 5:00 PM</b>
7	2/6	More equity market structure	HW 2
8	2/11	OTC markets	
9	2/13	Economics of exchanges	Quiz # 2
10	2/18	NYSE, NASDAQ and OTC	Guest # 2
11	2/20	Order execution strategy I	HW 3:
12	2/25	Algos, HFT, and the Flash Crash	Read: DB Documents on algos



13	2/27	VC, IPOs and the Facebomb	Read: Note on Underwriting,
14	3/4	More IPOs	
15	3/6		Guest # 3
		Spring Break	
16	3/18		Quiz #3
17	3/20	Corporate Elections, Proxy Contests, and Corporate Governance	Note on Corporate Control
18	3/25	Money market instruments Commercial paper, auction rate products and repo	Assignment # 4: HW/ Case
19	3/27	The politics of markets: Money Market Mutual Funds and their enemies	
20	4/1	Securitization and Asset Backed Securities I	Quiz # 4
21	4/3	Mortgage Backed Securities	Assignment # 5: HW/Case
22	4/8		<b>Special Guest 5:00 PM SEC Commissioner Dan Gallagher</b>
23	4/10	Regulation wrap-up	Quiz # 5
24	4/15	CDS and CDOs	
25	4/17	Bankruptcy and Financial Distress	HW # 6
26	4/22	Staying out of jail: Insider trading	
27	4/24	The Panic of 2008	Quiz # 6
28	4/29	Review	Assignment # 6: HW/ Case