This course covers the paths firms take to the capital markets, and the economic issues that arise. As the primary source of funds is debt issuance, the course focuses primarily on the different forms of corporate debt. We analyze the fragility arising from short-term debt, and the mechanisms for defending against it. The key issues we address w/r/t longer-term debt are why and how debt contracts constrain issuers, and the legal and strategic environment of distressed or bankrupt debtors. We cover financing through securitization, starting with the economics of consumer credit, and we address the role of investment intermediaries such as mutual funds. We will also cover shareholder voting and governance, particularly as regards the market for corporate control.

The course is in lecture format, with a 10-20 page note for each class (other than classes with the cases, for which there will be no note), as well as a deck. All notes and other course material will be posted on the Canvas site. There is no textbook. You are advised to read the notes before class, and for the quizzes you are responsible for whatever we cover in class or in a homework or in a case. You are generally responsible for the material we discuss in class, whether or not it appears in the notes.

The assignments to be handed in, on the indicated dates, are 3 homeworks and 4 cases (3 cases for MBAs). Homeworks are to be done individually, while the cases are to be done in groups of 3 to 6.

**There are five quizzes, roughly every two weeks starting 9/15.** As currently scheduled the quiz dates are 9/15, 10/4, 10/27, 11/10, and 12/1. Depending on speaker availability issues that might arise, the dates might change, but the first one will definitely be 9/15. They will be at the start of class, taking approximately 30 minutes. In order to account for illnesses, emergencies, interviews and other events that might interfere with taking a quiz, I will count only the top 4 of your 5 scores. **There will be no makeups.** There will be no tests other than these five quizzes, and there will be no final exam.

The cases are not traditional cases in the HBS sense. One will involve analyzing a bond prospectus, the UG-only case will involve analyzing a securitization prospectus, one will cover a hostile takeover that played out locally 11 years ago, and another is an empirical study of recent SPACs.

With the new course schedule, there is 1 day that is MBA only, the first day, and there are 4 days that are UG only: 3 days between Q1 and Q2, and the Monday before Thanksgiving. The MBA-only day we will spend on largely on review and preparation, the 3 days between Q1 and Q2 we will spend on the MBS and ABS markets, and the 1 day before Thanksgiving we will spend (ONLINE) on an ABS case. We will also be online on 11/8, when we will have a guest speaker guest-hosted by Dave Erickson, with whom I teach my other class, Strategic Equity Finance (which focuses on the equity rather than debt markets).

For the final grade, the coursework will be weighted: 55% on the top 4 of the 5 quizzes, 15% on the 3 homeworks and 30% on the 4 cases (3 for MBAs). Class participation can help at the margin.

There will be 4 guest speakers; the one finalized so far is Marc Lasry. On a day with a guest speaker, that talk is the only class of the day. **It is very important to the Wharton School that you attend these presentations if at all possible.** The dates of outside speakers might move.

**TAs:** The TAs are Stacey Chen, Gordon Horowitz and Malcolm Leverett
August 30th  **MBA ONLY Overview and Review**  
**Securities and markets we will cover**  
Recent trends and developments  
Basics of pricing and quotation

September 1st  **The Treasury Market**  
**Basic coupon bond**  
Pricing conventions: accrued interest, ytm  
Floating and trading Treasuries; on vs. off-the run  
Simple arbitrage relations  
Short-term risk of long-term arbitrage  
Using Duration

September 8th  **Financial Fragility**  
Bank runs – Diamond/Dybvig Model  
Defending against bank runs  
Deposit Insurance  
Suspension of Convertibility  
Lender of Last Resort  
Shadow banking: Money Funds; Stable NAV and runs

September 13th  **The Money Market**  
Basic Repurchase agreement: Margin, pricing and collateral  
Run on Repo  
Tri-Party Repo  
Shorting with Repo; Securities Lending  
Commercial Paper Market and Liquidity Facilities

September 15th  **FIRST QUIZ & Trading and Market Structure**  
*HW1, Treasury Pricing and Repos, Due (individual)*  
Insider trading and the bid/ask spread  
Tactics for trading inside the spread  
Retail trading pathologies  
Payment for order flow

September 20th  **Options I**  
Put/Call Parity  
Early Exercise  
Binomial Option Pricing

September 22nd  **Options II**  
Multiperiod Binomial Option Pricing  
Black-Scholes Formula  
Delta Hedging

September 27th  **Corporate Bond Contracts**  
Equity and debt as options on enterprise value  
Covenants and carveouts
Events of Default and the Role of the Trustee

September 29th  Guest Speaker TBA

October 4th  **SECOND QUIZ & Corporate Bankruptcy**  
*HW2, Options, Due (individual)*  
Liquidating in Chapter 7  
   - Automatic Stay  
   - Reversal of Preferences / Fraudulent Transfers  
   - Absolute Priority  
Reorganizing in Chapter 11  
   - DIP Finance; Super-priority; cram-downs and cram-ups  
   - Voting rules; exclusivity; blocking power  
   - Section 363 auctions

October 6th  **Financial Distress and Restructuring**  
Free-Rider problem  
Structuring Exchange Offers: minimum participation; exit consent; threat to file  
Prepackaged Bankruptcy  
Distressed-Debt Investing

October 11th  **Bond Prospectus Case**  
*Hand in Bond Prospectus Writeup (group)*

October 13th  **UG ONLY Consumer Credit**  
Payment Cards  
Mortgages; Fannie & Freddie  
Car loans and student loans  
Personal bankruptcy: chapters 7 & 13

October 18th  **UG ONLY MBS**  
Quantifying prepayment risk  
Benchmark prepayment path  
Weighted-Average Life  
Sequential tranching

October 20th  **UG ONLY More MBS & ABS**  
IO/PO; Floaters & Inverse Floaters; PACs & Support bonds  
What gets securitized, what doesn’t  
Managing credit risk through the deal structure

October 25th  **Guest Speaker: Marc Lasry of Avenue Capital (3:30 only)**

October 27th  **THIRD QUIZ & Preferred Equity**  
Sources of Seniority  
Tax and capital-adequacy treatment  
Where you see it and where you don’t
November 1st  Municipal Capital Markets
Tax treatment
Muni instruments
Muni distress, restructuring & bankruptcy

November 3rd  UNDERWRITING: IPOs, SEOs and Rights Offerings
Structure of rights offerings
SEO: traditional / shelf offerings / bought deals
IPO: underwriting, SPACs & direct listings

November 8th  GUEST SPEAKER TBA w Dave Erickson

November 10th  FOURTH QUIZ & Mutual Funds & Other Investment Conduits
Open-End Funds
Closed-End Funds
ETFs & ETNs

November 15th  Market for Corporate Control
Shareholder voting and engagement
Free-rider problem with takeovers
Poison pills / Staggered boards / other defenses

November 17th  Convertibles
Standard Convertibles
Death Spiral Convertibles
Mandatory Convertibles
Contingent Convertibles

November 22nd  UG ONLY, ONLINE CLASS, Securitization Prospectus Case
UG ONLY Hand in Securitization Prospectus Writeup (group)

November 29th  Airgas Case
Hand in Airgas Case Writeup (group)

December 1st  FIFTH QUIZ / Credit Default Swaps
Market Structure
Valuation and Payoff calculation

December 6th  Guest Speaker TBA
Hand in SPAC Results (group)

December 8th  Wrapup
HW3, CDS, Due (individual)