FNCE 2380: Capital Markets

Spring 2024

Prof. Dr. Jean-Marie Meier

Course Website: Available on Canvas

Tentative and Subject to Change, current version: January 12, 2024

Contact Information

E-mail: jmmeier@wharton.upenn.edu ; **Office:** 2419 Steinberg-Dietrich Hall

Teaching assistants

The excellent teaching assistants are:

Stefanus Hinardi	hinardi@wharton.upenn.edu
Jonas Peeters	jonasp@wharton.upenn.edu
Aditi Singh	aditisi@wharton.upenn.edu
Luke Takashima	Luke.Takashima.wh24@wharton.upenn.edu

Office hours

Dates and times in Canvas.

Logistics of classes

FNCE 2380-001 MW 10:15-11:44am, JMHH F60

FNCE 2380-002 MW 1:45-3:14pm, SHDH 109

Course Objectives

The objective of this course is to introduce students to the economics of capital markets and the ways that firms and government entities raise external financing. We will explore issues from the perspectives of both issuers and investors. The idea behind this course is to give students a wide overview of many different aspects and elements of capital markets.

The target audience is students who want to work in a capital markets-related job (e.g., (investment) banking, asset management, brokerage firms, private equity, hedge funds, insurance, mortgage companies, etc.). The target audience also includes students who want to work in finance-related roles in non-financial firms (e.g., to help a firm raise financing). The course will also help students to make more informed decisions about their own financial investments.

Some of the likely topics covered include bonds, the treasury market, money markets, the fragility arising from short-term debt financing and how to protect against it, market making, derivatives,

corporate bankruptcy, financial distress and restructuring, consumer credit, mortgage-backed securities (MBS), asset-backed securities (ABS), municipality finance, the raising of equity, mutual funds and related investment vehicles, the market for corporate control/corporate governance, preferred equity, convertibles, and credit default swaps. We also discuss some features and implications of debt and equity contracts and how they constrain future financing decisions, including those of distressed or bankrupt debtors.

Prerequisites

The prerequisite for this course is FNCE 1000 (Corporate Finance; undergraduates), or an equivalent class from another university. I also expect that students are familiar enough with Microsoft Excel to handle basic finance-related tasks, such as constructing a discounted cash flow spreadsheet.

Course Materials

The course is mainly in lecture format, based mostly on slides. There will be class notes for most classes. There will likely be two cases and potentially some guest lectures. The class material will be provided through Canvas and potentially through study.net. 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, homework, cases, or other material shared through Canvas. You are obviously also responsible for anything we discuss in class, even if it is not explicitly written down in the slides or notes.

Grading

Quizzes _____ (60% of total)

> 5 quizzes, the best 4 are counted equally, and the worst quiz score is dropped. This implies that you can miss 1 quiz for any reason. I recommend that you do not plan to intentionally miss 1 quiz since "stuff" happens, and you might end up missing more than 1 quiz, hurting your grade. There will be no make-up quizzes.
>
> Each quiz will take place in the first 25-30 minutes of class on the scheduled date (see below).
>
> Each quiz may consist of multiple choice and short answer questions (conceptual and/or calculation). Any material covered in the lectures or the required readings, including from cases or homework assignments, may appear in the quizzes. In general, the questions will focus on material covered since the prior quiz, but anything is fair game.
>
> Quizzes are closed-book and closed-note, so it is important to stay on top of the material. You will need a calculator but may not use any other electronic device.

I might provide a cheat sheet for formulas, if necessary, as the purpose of the quizzes is NOT for you to learn things by heart but to demonstrate your understanding of the course material.

Cases and homework assignments   (40% of total)

There will likely be 2 cases and 3 homework assignments. Each of them counts the same. I will drop the worst case or homework grade (either 1 case or 1 homework grade but not 1 each). There is a strict submission deadline for each case/homework (see below). Submitting at most one hour late implies a 20-percentage points penalty on the grade for the case/homework (so the maximum score is 80 out of 100). Submitting more than one hour late implies a score of 0.

Homework is to be done individually, while the cases are to be done in groups of 3 to 5. The composition of the groups can change from case to case. Different members of the same group cannot submit different write-ups.

Cases and homework assignments can only be submitted via Canvas. There will be no extensions of deadlines or make-up assignments, with no exceptions.

The cases may or may not be traditional cases in the HBS sense.

General remarks on grading policy

Participation might affect grades at the margin.

Attempt every problem and show your work. To appeal a score on a quiz/homework/case, you must submit a request to me in writing, within one week after the grade in question is received, describing the nature of the appeal. After receiving a request, the entire assessment will be re-graded, which may raise or lower the score. Parts of the quiz written in pencil will not be re-graded.

If I am under the impression that most of the class is putting in sufficient effort in studying for the course, I will curve the grades if necessary. Otherwise, I might not apply a curve. The final grades will likely be based on a 100-point scale (98-100 A+, 93-97 A, 90-92 A-, 88-89 B+, etc.). The conversion between letter grades and GPA is: A+/A (4.0), A- (3.7), B+ (3.3), B (3.0), B- (2.7), C+ (2.3), C (2.0), C- (1.7), D+ (1.3), D (1.0), and F (0.0). There is no grade of D-.

The mean GPA in recent years in undergraduate elective courses is around 3.65. I aim for, but do not guarantee, a mean GPA around this number.

Expectations for the Course and the Classroom

Students are expected to attend every lecture, arriving on time and remaining until the lecture is completed. We will use the Wharton Connect app to take attendance at the start of each meeting.

Attendance policy starts in the second class. I allow for 5 blanket exceptions to the attendance policy that can occur without any penalty and for any reason. This blanket exception policy does not apply to those classes that have a quiz scheduled (you can only miss 1 out of 5 quizzes without negatively affecting your grade). Students have to report their absence in the app, following UPenn/Wharton policies (e.g., the Course Action Notice procedure for undergraduate students). In case a student misses more than 5 classes, I reserve the right to deduct 1 point (out of a total of 100 of the final grade) for each missed class beyond the 5 blanket exceptions.

Students should display name tents at all times. For now, there is no assigned seating. My aim is that we will have active in-class engagement with the course content. If I find that students are not responsive when prompted in class, then I will resort to cold calling. If you want to speak, for instance, to ask a question, please raise your arm.

Students are only allowed to use laptops and tablets (or any other electronic device) to take notes during class. Phones are only allowed to be used for classroom related apps such as the attendance one. If I notice that a student is using an electronic device for any other purpose, such as browsing social media, I reserve the right to apply the following penalty policy. The first time a student is caught violating this policy, I deduct 1 point out of a score of 100; the second time, the penalty gets doubled to 2 points; the third time, the penalty gets doubled to 4 points, and so on. I might apply a warning policy without a points penalty for the first time a student is caught violating this policy. This waiver can be removed for all students at any time at my discretion.

Students should mute their phones, not leave the classroom to take a call, and not chat around during classes. In case of violations of this policy, I might apply a similar policy to the above one.

Interaction outside of Class

The best option to ask a question usually is in class. There are weekly office hours offered by me and the teaching assistants. For questions outside the classroom that require lengthy responses, office hours are often best. For more sensitive questions and concerns an email to me usually is the best option. You can use "harmonize", accessible via Canvas, to ask questions, too. You can also email me or the teaching assistants with questions. I reserve the right to answer questions that I receive by email or during office hours that are of general interest on "harmonize." I will not disclose which student asked a question unless requested by the student. Questions about logistics are best asked on "harmonize".

During weekdays, the teaching assistants and I will try to answer questions within 24-48 hours. However, I will not answer "last minute" questions that are sent the same day as the due date of an assignment. Before the due date of a homework or case, only clarifying questions about the homework or a case will be answered but not questions that might give away part of the solution.

Accommodations

In case you need accommodation, I am perfectly happy to help, following university and business school policies. I am hearing a bit worse than most people, so please speak up when asking a question in class.

Code of Ethics

Matters of academic integrity are important. Submitted cases/homework assignments for grading should be your own or your team's own work only. You may use firm-specific or market data that are publicly available for your analysis. You cannot use old notes, handouts, or solutions to the cases or homework from previous or other sections of this course or similar courses elsewhere for your written reports. I might use anti-plagiarism software on your cases/homework assignments.

Quizzes should only include your own work and no work from classmates, teammates, or other individuals or resources. Failure to observe this rule will, at a minimum, result in receiving zero points on that quiz/homework/case 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 and the Wharton Learning Agreement if you have any questions.

Students should not discuss the content related to the current day's class discussion or exam during the period between sections to avoid giving later sections an unfair advantage. Violations of the honor code will be immediately reported to the administration.

Unrestricted use of Generative AI permitted:

Within this class, you are welcome to use AI models (ChatGPT, GPT, DALL-E, Stable Diffusion, Midjourney, GitHub Copilot, and anything after) in a totally unrestricted fashion, for the cases and homework assignments, at no penalty. However, you should note that all large language models still tend to make up incorrect facts and fake citations; code generation models have a tendency to produce inaccurate outputs; and image generation models can occasionally come up with highly offensive products. You will be responsible for any inaccurate, biased, offensive, or otherwise unethical content you submit regardless of whether it originally comes from you or an AI program. If you use an AI program, its contribution must be acknowledged in the assignment; you will be penalized for using an AI program without acknowledgement. The university's policy on plagiarism still applies to any uncited or improperly cited use of work by other human beings, or submission of work by other human beings as your own.

Lunch Program Student-Faculty Meals

I plan to do some student-faculty meals as part of the lunch program.

Free subscription links:

- Wall Street Journal:
  http://pwp.library.upenn.edu.proxy.library.upenn.edu/loggedin/pwp/pw-wsj.html
- Financial Times:
  http://pwp.library.upenn.edu.proxy.library.upenn.edu/loggedin/pwp/pw-ft.html
- Bloomberg: https://pwp-library-upenn-edu.proxy.library.upenn.edu/loggedin/pwp/pw-bloomberg.html

Tentative Class Schedule

Dates might change for various reasons, in particular, but not exclusively, speaker availability issues.

It is very important to the Wharton School that you attend the presentations by the guest speakers if at all possible.

Session	Date	topic/assessment
Session 1	M 1/22	introduction and overview
Session 2	W 1/24	mutual funds & related investment vehicles
Session 3	M 1/29	corporate bankruptcy
Session 4	W 1/31	financial distress and restructuring
		homework 1, submission deadline: 2/5, 11:59pm
Session 5	M 2/5	flotation/initial public offerings
Session 6	W 2/7	market for corporate control/corporate governance
Session 7	M 2/12	quiz 1, bond basics/treasury market
Session 8	W 2/14	financial fragility
Session 9	M 2/19	money market, repurchase agreements (repos)
Session 10	W 2/21	quiz 2, market making
Session 11	M 2/26	options 1
Session 12	W 2/28	options 2
Session 13	M 3/11	guest speaker 1
		case 1, submission deadline: 3/12, 11:59pm
Session 14	W 3/13	case 1
Session 15	M 3/18	corporate bond contracts
Session 16	W 3/20	quiz 3, consumer credit
Session 17	M 3/25	mortgage-backed securities
		homework 2, submission deadline: 3/27, 11:59pm
Session 18	W 3/27	asset-backed securities
Session 19	M 4/1	municipal capital markets
Session 20	W 4/3	quiz 4, preferred equity
Session 21	M 4/8	guest speaker 2

		case 2, submission deadline: 4/9, 11:59pm
Session 22	W 4/10	case 2
Session 23	M 4/15	ESG & Capital Markets
Session 24	W 4/17	quiz 5, convertibles
Session 25	M 4/22	guest speaker 3
Session 26	W 4/24	credit default swaps
		homework 3, submission deadline: 4/29, 11:59pm
Session 27	M 4/29	recent events (alternatively, could, e.g., discuss syndicated loans)
Session 28	W 5/1	recent events, final class