• Discount today. Pay no interest. You pay less than the amount.
• Compounding annual and continuous compounding. You saw all these on Finance.
• Present value.
• A consol (perpetuity) is something that is paying the same amount in the same period forever.
• Annuity.
• Conventional bond every six months.

Corporate Stocks

• The Dutch East Indian Company, first company with shares.
• Private equity: shares are never traded. Public equity's are.
  ○ Equity: shares in a corporation.
  ○ Corporation: corpus latin "body". An artificial person.
• One share one vote. Vote to set a board of directors.
• In the US you have to choose a State to establish a corporation. And each State has shareholders meeting. Certain hires have to be decided there, including choosing CEO its the chairm of the board too. in Europe not. The board of directors gives shareholders normally don't get involved. 6 to 10 people board of directors. If fiduciary loyalty to the shareholders.
• For profit and non profit corporations. The first one has shareholders, the second one does not.
• The market capitalization of a company is equal to the share value times the shares.
• Dividends: payment to shareholders when the board propose it. It is not obligation.空气中 may never pay dividends.
• When a dividend is paid, generally, the share price falls. Because the company is paying it out. It's called the ex-dividend price. If a broker hears that in some days someone to buy right now shares to get the dividend is considered unprofitable. Dividend you have to continue, otherwise you start gaining attention.
• A company can issue corporate bonds with interests too. The risk in leases with,
• There is a complaint that big corporations stop emitting shares after they got big trading the existent ones.
  ○ Pecking order theory (Meyers, 1984): save money and then spend it so need they can't really get the money they issue new shares.
• Dilution, what happens when a company issues more shares.
There are two kinds of regulation:
  o Microprudential: protects the small agents.
  o Macroprudential: protects the system.

In finance, as in sports, we tend to admire more the players than the regulators.

Five levels of regulation:
1. Within the firm. (Oldest) Inside and outside directors of a company.
2. Trade groups between the firms.
3. Local government.
5. International. (Newest)

Some people show more character than others.

**Within the firm.**

Indra Nooyi, president of Pepsi Co. is part of the board of directors of Yale.
  o **Tunneling:** sneaking away value, putting it on your own pocket. Gap between executive compensation: sort of obvious.
  o **Expropriation of corporate opportunities:** setting up a new company. Duty of care as a board member, have a moral responsibility with your ob is the company. To avoid tunneling. Duty of loyalty. Loyalty to the shareholders.

**Trade groups.**

  o Example: New York Stock Exchange, founded in 1792. In that year was the first time a company was born because of him.

**Local regulation.**


**National regulation.**

  o 1934, Securities and Exchange Comission. They regulate anything that has to do with the market.
  o SEC protects small investors. Public and private securities. IPO defined by companies to stay private.
    o **Hedge fund** is an investment company for wealthy individuals only.
Next Basel will be in 2019.
Risk weighting assets.
Capital requirements: banks can't take too many risks.
50% mortgages. 0% governent. 20% in bonds.
100% lendings.
Common equity must. Hold 9.5% of your Risk Weighting Assets.
Mexican crisis 1994-5.
- Salinas. Bubble and boom. There wasn't effective regulation.

Forward and Future Markets

Futures Markets: Markets that predict the future
- Prices of the future.
- Organized markets.

Forward Markets:
- Specialized Markets.

Futures. DERIVATIVES

Public opinion thinks that speculation is evil.

Futures and Forwards.

- Started in Japan. (1673). Agriculture.
- Forwards precede futures market.
- At the futures market, contracts are standardized.
- If future prices are increasing, it's called contangle. Future markets get rid of costs.
  - Key idea: margin.
backing on repos. They could've been saved via bail out, but the government bailed out AIG and Meryl Lynch.

**Repo's are repurchase agreements.**

The crisis of 07 and 08 was substantially a run of repos.

As long as the banks didn't accept deposits they didn't have to be regulated as banks.

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**Professional Money Managers and Their Responsibilities**

- Everyone that is own is $70 trillion dollars.
- Investment managers manage risk.
- If you're managing other people's money, you have fiduciary duty.

- **Prudent person rule:** Investment managers must behave as prudent people.
- **Dodd-Frank:** 2010, prudential standards. Regulations.
  - Created the FSOC: recommendations on financial standards.
- Financial advisors are regulated by governments.

**Mutual Funds.**

First one: Massachusetts Investment Fund in the 20s.

They are designed for individuals.
• A lot of stuff has turned out badly in the financial industry.

• Democratization of finance.
  o Cosmopolitans: understand finance.
  o Locals: have negative ideas about cosmopolitans. Do not understand finance.

• Expansions of finance in the future:
  o Home equity.
  o Livelihood assurance.
  o Continuous workout mortgage.
Introduction

Expansions of finance in the future:

- Financial Markets

Monday, October 5, 2015 4:19 PM

According to the US, brokers must choose the best price for their customers.

Another example is the

The simplest kind of order is the

Paul Allen, biggest yacht, 400 ft. There's this Paul G. Allen Family Foundation.

The first big industrial fund was established by Carnegie Steel in 1901. Unions.

Dodd

If you're managing other people's money, you have fiduciary duty.

Lehman Brothers: it was a pure investment bank, so it wasn't regulated as a commercial bank. They went bankrupt

It differences from commercial banking because they don't open accounts.

Cu = price if the stock goes up

C = price of the call

Theoretical purposes: we need prices.

Interesting thing: Oil futures peaks have a correlation with economic crisis.

We are volving toward better financial institutions.

Anchoring:

Overconfidence. There's a human tendency to overestimate your own abilities.

3% of males have an APD. And 1% of females.

Consuel someone to buy right now shares to get the dividend is considered unethical. Once you start paying a

Dividends: payment to shareholders when the board propose it. It is not obligatory. Young companies almost

Compounding annual and continuous compounding. You saw all these on Financial Math.

2010. Health. Obama. Creating new insurance exchanges that would offer insurance to be purchased by the

AIG.

Insurance guarantee funds in almost every state. Started in 1941 in NY. AIG was way too big. They had to rescue

problem started after Greenberg left. The company became exposed to real estate risk and the home prices fell

AIG. Founded in 1919 in Shanghai by Cornelius Vander Starr. He ran the company as CEO until his death in 1968.

All of them are inventions.

Leverage: sigma = standard deviation.

Equity Premium Puzzle: companies shares do extremely well, that's a puzzle. There's a risk in here. The extra return

Two main concepts: Leverage. Equity Premium Puzzle.

Human factors engineering: designing machines that human beings don't screw up.

Engineering.

What dpth they associate with them. So we have to frame things in a way that's convenient to people. Finance

Financial markets are based on mathematical models and a core part of intuition. The idea of independence. If

Financial Math.

24%

It's major advance in human understanding.

Emerging markets.

Finance is about making things happen, getting capital, etc. Financial techniques to build a business.

Inventions in Finance. The very simple idea of shares was a great invention. Corporation comes from the Latin

Better and better.

Engineering.

Theory of Debt