- Discount today. Pay no interest. You pay less than the amount.
- Compounding annual and continuous compounding. You saw all these on Fina
- Present value.
- A consol (perpetuity) is something that is paying the same amount in the same
- Annuity.
- Conventional bond every six months.
- Forward interest rates. Sir John Hicks in *Value at Capital* (1939). Value + capital.

Corporate Stocks

- The Ducth 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 shareholders meeting. Certain things have to be decided there, including choo CEO its the chairmn of the board too, in Europe not. The board of directors giv Shareholders normally don't get involved. 6 to 10 people board of directors. If duty of loyalty to the shareholders.
- For profit and non profit corporations. The first one has shareholders, the secor
- The market capitalization of a company is equal to the share value times the sha
- Dividends: payment to shareholders when the board propose it. It is not obliga never pay dividends.
- When a divindend is paid, generally, the share price falls. Because the compan paid it out. It's called the ex-dividend price. If a broker hears that in some days consuel someone to buy right now shares to get the dividend is considered un dividend you have to continue, otherwise you start gaining attention.
- A company can issue corporate bonds with interests too. The risk in reases with
- There is a complaint that big corporations stop emitting shares after they got b trading the existent ones.
  - Pecking order theory (Meyers, 1984): save money and then spend it so ne they can't really get the money they issue new shares.
- Dilution, what happens when a company issues more shares.

Missbehavior, Crises, Regulation and Self-

- There are two kinds of regulation:
  - Microprundential: protects the small agents.
  - Macroprundetial: 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.
  4. National.
  5. International. (Newest)
- Some people show more character than others.
- <u>**Within the firm.**</u>
- Indra Nooyi, president of Pepsi Co. is part of the board of directors of Yale.
  - **Tunneling:** sneaking away value, putting it on your own pocket. Gap betw
    - **Executive compensation**: sort of obvious.
    - **Expropiation of corporate opportunities:** setting up a new compan
    - **Insider trading:** selling or buying shares with private information.
  - Duty of care as a board member, have a moral responsibility with your ob the company. To avoid tunneling. Duty of loyalty. Loyalty to the sharehold

- <u>**Trade groups.**</u>
  - Example: New York Stock Exchange, founded in 1792. In that year was the used to work outdoors. Buttonwood agreement. William Duer, a stockbro was born because of him.
  - 1976, Mayday, monopolies. US. BigBang in UK in 1985.
- <u>**Local regulation.**</u>
  - Laws called Blue Sky Laws regarding finance. *William Brandeis "Other Peo* promoters of securities.
- <u>**National regulation**</u>**.**
  - 1934, Securities and Exchange Comission. They regulate anything that ha
  - SEC protects small investors. Public and private securities. IPO defined by companies to stay private.
    - **Hedge fund** is an investment company for wealthy individuals only.

- Basel III (2010) G20 countries.
- 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

Forwards.

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 <u>future</u> prices are increasing, it's called **contangle**. Future markets get rid of co
  - Key idea: margin

backing on repos. They could've been saved via bail out, but the government l
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

Professional Money Managers and Their

- 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: Massachussets Investment Fund in the 20s.

They are designed for individuals.

- A lot of stuff has turned out badly in the financial industry.

- Democtratization of finance.
  - Cosmopolitans: understand finance.
  - Locals: have negative ideas about cosmopolitans. Do not understand fina

- Expansions of finance in the future:
  - Home equity.
  - Livelihood ensurance.
  - Continuous workout mortgage.