

# **FUNDING INVESTMENTS**

## **FNCE 238/738**

**Professor Krista Schwarz**  
**Spring 2010**

**Class Hours: Tuesday & Thursday**

**10:30-12:00 (238)**

**1:30-3:00 (738)**

**Office Hours: Fridays, 9:30-11:00**

**TAs**

**Madi Kapparov**

**Adam Kuehne**

**Silvia Manak**

**Course E-mail: FNCE738@gmail.com**

**TA Office Hours TBA**

### **Motivation and Overview**

In textbook finance, agents simply borrow and lend at the riskfree rate. In practice, it's not quite so straightforward. The main objective of this course is to understand the techniques by which firms (both financial and nonfinancial) go to the market for funds, the structure of these funding markets, and associated economic and financial stability issues. The course will cover the design, issuance, and pricing of securities used to finance investments. Techniques to hedge various types of risks associated with funding strategies will also be covered. The recent financial crisis has provided numerous examples that illustrate financing innovations and associated risks. We will draw from events in the crisis and discuss policy responses to these. We will also discuss future trends in funding markets.

### **Course Material**

The course material will be available for download via the webCafé site at <http://webcafe.wharton.upenn.edu>. This course is primarily lecture format, and I will make slides or notes available for each class. There is no textbook or bulkpack, however I will assign readings to complement the lecture materials. Readings will be posted on webCafé site. You are responsible for any and all course content that is discussed in class.

### **Tests**

2 in-class tests tentatively scheduled for Thursday, February 23 and Tuesday, April 20.

You must come to the section for which you are registered. You are advised to bring a pen and a non-programmable calculator to all tests. Tests written in pencil will not be eligible for any grading revisions. The only allowable excuse from a test is a note from a doctor stating that you were unable to take the

test (as opposed to a note, for instance, stating that you went to the clinic, which would not be an allowable excuse).

### **Grading**

Tests (2)	60% (30% each)
Assignments	20%
Class Participation	20%

*Please use your name tent cards (MBAs and undergraduates)! If you do not have a name card, please make one.*

Verbal grade appeals will not be considered. A written statement of any grading concern is required. Such requests will only be considered within one week of the date the exams are returned to you. Keep in mind that re-grading may cover the entire exam or assignment, not just the section in question, thus possibly lowering or raising the overall grade.

Assignments must be handed in at the beginning of class on the dates that they are due. Late assignments will not be accepted under *any* circumstances. The lowest grade will be dropped.

### **Outline**

1. The role of the Treasury and Federal Reserve System in funding markets
2. Maturity mismatch and the Diamond-Dybvig model. The rationale for deposit insurance
3. Recent financial crisis: causes, evolution and consequences. Moral hazard and adverse feedback loops between funding markets and the macroeconomy. Prospects for reform of financial markets. Suggested reading "In Fed we Trust" by David Wessel
4. Short term debt: repo markets and haircuts, unsecured interbank lending, commercial paper
5. Securitization, tranching and CDOs
6. The Panic of 1907 and parallels to the recent credit crisis
7. Government securities (Treasury and Agency) and the pricing of bonds
8. Swaps, interest rate futures, and hedging of interest rate risk
9. Types of corporate debt. Credit risk and corporate risk spreads. Credit default swaps: contract design and pricing
10. Exchange rate exposure and methods to hedge it. Forward rates and covered and uncovered interest parity. Carry trades

11. Corporate bankruptcy and restructuring. Prospects for reform of bankruptcy of financial institutions.

12. IPOS: Underwriting and raising equity

13. Investment Pools

*This outline is subject to change.*