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). All notes and other course material will be posted on the Canvas site. There is no textbook, but there are some readings. You are advised to read the notes before class, and you are responsible for their content on the tests. Any other readings are for background; you are responsible for their content only to the extent that we discuss it in class. You are generally responsible for the material we discuss in class, whether or not it appears in the notes or other readings.

The assignments to be handed in, on the indicated dates, are 5 homeworks, the top 4 of which will count toward your grade, and 3 cases. Homeworks are to be done individually, while the cases are to be done in groups of 3 to 6.

There are six quizzes, roughly every two weeks starting September 17. As currently scheduled the quiz dates are 9/17, 10/3, 10/17, 10/31, 11/14 and 12/3. Depending on speaker availability issues that might arise, the dates might change, but the first one will definitely be 9/17. They will be in-class, taking approximately 30 minutes. In order to account for illnesses, emergencies, interviews and other events that might take you from the classroom, I will count only the top 5 of your 6 scores. There will be no makeups. There will be no tests other than these six quizzes, and there will be no final exam.

The cases are not traditional cases in the HBS sense. One will involve analyzing a corporate bond prospectus, another will involve analyzing a securitization prospectus, and the third will be analyzing a set of follow-on equity offerings.

For the final grade, the coursework will be weighted as follows:
- 60% on the top 5 of the 6 quizzes
- 20% on the top 4 of the 5 homeworks
- 20% on the cases

Class participation can help at the margin.

Guest Speakers are Adam Cohen from Covenant Review, Andrew Goldman from Wilmer Hale, and one more TBA. 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.

Office Hours and TAs: The TAs are Mehran Ebrahimian, James Megibow, Max Hermelin, and 1 more TBA
August 29th  **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 5th  **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 10th  **The Money Market**
*HW1, Treasury Pricing, Due*
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 12th  **Trading and Market Structure**
Insider trading and the bid/ask spread
Tactics for trading inside the spread
Retail trading pathologies
Payment for order flow
New trading platforms

September 17th  **FIRST QUIZ & Options I**
Put/Call Parity
One-period Binomial Option Pricing
Multi-period Binomial Option Pricing

September 19th  **Options II and Shareholders vs. Bondholders**
*HW2, Repos, Due*
Fiduciary vs. Contractual duties
Enterprise vs. Equity Value
Underinvestment / Debt Overhang

September 24th  **Bond Defaults and Amendments**
Crafting Bond Contracts
Role of Bond Ratings
Events of Default: Financial vs. Technical
Role of Trustee
Consent solicitations
September 26th  Guest Speaker (tentative)

October 1st  **Corporate Bankruptcy**
*HW3, Options, Due*
- 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 3rd  **SECOND QUIZ & Financial Distress and Restructuring**
- Free-Rider problem
- Structuring Exchange Offers: minimum participation; exit consent; threat to file
- Prepackaged Bankruptcy
- Distressed-Debt Investing
- PIPEs

October 8th  **Municipal Finance**
- Tax treatment
- Muni instruments
- Advance Refunding
- Muni Distress & Restructuring

October 10th  **Bond Prospectus Case**
*Hand in Bond Prospectus Writeup*

October 15th  Guest Speaker, Andrew Goldman, Wilmer Hale

October 17th  **THIRD QUIZ & Preferred Equity**
- Sources of Seniority
- Tax and capital-adequacy treatment
- Where you see it and where you don’t

October 22nd  **Convertibles**
- Standard Convertibles
- Floating Price (Death Spiral) Convertibles
- Mandatory Convertibles
- Contingent Convertibles

October 24th  **Consumer Credit**
- Payment Cards
- Mortgages; Fannie & Freddie; basic mechanics
- Car loans and other installment loans
- Personal bankruptcy: chapters 7 & 13
October 29th  
**MBS**
Prepayment risk  
Unit of prepayment risk  
Sequential tranching

October 31st  
**FOURTH QUIZ / ABS and other MBS strategies**
IO/PO; Floaters & Inverse Floaters; PACs & Support bonds  
Managing Credit Risk  
Securitizing revolving balances

November 5th  
**UNDERWRITING: IPOs, SEOs and Rights Offerings**
Structure of rights offerings  
SEO: traditional / shelf offerings / bought deals  
IPO: mechanism and underpricing

November 7th  
**Securitization Prospectus Case**  
*Hand in Securitization Prospectus Writeup*

November 12th  
**Mutual Funds**
Open-End Funds  
Closed-End Funds  
ETFs  
Regulatory environment  
Performance

November 14th  
**FIFTH QUIZ / Market for Corporate Control**
Corporate voting  
Free-rider problem with takeovers  
Poison pills / Staggered boards / other defenses

November 19th  
**Credit Default Swaps**
Market Structure  
Valuation  
Payoff calculation  
Sovereign CDS

November 26th  
**New security designs**
*Hand in Follow-on Offerings Case*

November 28th  
**Guest Speaker**

December 3rd  
**SIXTH QUIZ / Follow-on Offering Results**

December 5th  
**Crowdfunding**
*HW4, CDS, Due*

December 10th  
**Wrapup**
*HW5 Due*