

财金之旅(影印版)

Second Edition

**Foundations of Financial
Markets and Institutions**

金融市场与金融机构基础

(第2版)

[美] Frank J. Fabozzi
Franco Modigliani 著
Michael G. Ferri

清华大学出版社

Prentice-Hall International, Inc.

(京)新登字 158 号

Foundations of financial markets and institutions, 2nd ed./Frank J.

Fabozzi, Franco Modigliani, Michael G. Ferri

© 1998 by Prentice-Hall, Inc.

Original edition published by Prentice-Hall, Inc., a Simon & Schuster Company.

Prentice-Hall 公司授权清华大学出版社在中国境内(不包括香港特别行政区、澳门和台湾地区)独家出版发行本书影印本。

本书任何部分之内容,未经出版者书面同意,不得用任何方式抄袭、节录或翻印。

本书封面贴有 Prentice-Hall 激光防伪标签,无标签者不得销售。

北京市版权局著作权合同登记号:01-98-2415

图书在版编目(CIP)数据

金融市场与金融机构基础:第2版:英文/(美)法博齐(Fabozzi, F. J.)等著. - 影印版. - 北京:清华大学出版社,1999

(财金之旅)

ISBN 7-302-03430-3

I. 金… II. 法… III. ①金融市场-研究-英文 ②金融机构-研究-英文 IV. F830.9

中国版本图书馆 CIP 数据核字(1999)第 07806 号

书 名: Foundations of financial markets and institutions

金融市场与金融机构基础

作 者: [美] Frank J. Fabozzi, Franco Modigliani, Michael G. Ferri

出版者: 清华大学出版社(北京清华大学校内,邮编 100084)

<http://www.tup.tsinghua.edu.cn>

Prentice-Hall International, Inc.

印刷者: 清华大学印刷厂

发行者: 新华书店总店北京发行所

开 本: 787×1092 1/16 印张: 42

版 次: 1999年3月第1版 1999年3月第1次印刷

书 号: ISBN 7-302-03430-3/F·226

印 数: 0001~3000

定 价: 58.00 元



To my father, Antonio Fabozzi, and to the
memory of my mother, Josephine Fabozzi.

Frank J. Fabozzi

To all of my students, wherever they are.

Franco Modigliani

To my mother, Peggy Maginn Ferri, and
to the memory of my father,
Ferdinand E. Ferri.

Michael G. Ferri



PURPOSE AND STRUCTURE OF TEXT

In the preface to the first edition, we wrote that the last 30 years had been a time of profound, indeed revolutionary, change in the financial markets and institutions of the world. The hallmarks of that change were innovation, globalization, and deregulation. In the last few years, those forces have actually gathered more strength, and the financial landscape continues to undergo large and visible changes around the globe. In the United States alone, the number of people holding equity shares, either directly or indirectly through some form of mutual funds, has risen sharply since 1993. Money from U.S. investors continues to pour into markets abroad, and the interest of foreign investors in U.S. markets keeps growing. Japanese leaders are intent on further deregulation of that nation's financial markets, and Chile's experiment with a privately managed and market-oriented social security system is gaining world-wide attention. The discipline that we know as Finance has attracted the talents and energies of people from Chicago to Singapore and from Paris to Bombay.

Our purpose in writing this book is to instruct students about this fascinating revolution. We describe the wide array of financial securities that are now available for investing, funding operations, and controlling various types of financial risk. We help the students to see each kind of security as a response to the needs of borrowers, lenders, and investors, who manage assets and liabilities in a world of constantly changing interest rates, asset prices, regulatory constraints, and international competition and opportunities. Our book devotes a considerable amount of space to explaining how the world's key financial institutions manage their assets and liabilities and how innovative instruments support that management. Also, the text gives students a thorough introduction to financial regulation and to major facets of international finance.

It is a safe bet that change will mark the discipline of finance over the foreseeable future and will produce new kinds of institutions, markets, and securities. Our extensive explanation of the developments that dominate today's financial scene provides students with the sense of institutional structure and the analytical tools that they will need to understand the innovations that will surely occur throughout their careers.

Our coverage of institutions, investors, and instruments is as current and up-to-date as we can produce in the face of frequent and significant change both in the United States and around the world. We have made a major effort to get the latest information and data on the players in the global financial game and the rules by which it is played. We think our focus on the actual practices of financial institutions is particularly beneficial to students who will, as noted above, inevitably have to respond to changes in those institutions and their environment.

We believe that our book differs in several key respects from many texts on financial institutions and markets. What follows is an outline of the key differences.

The first difference, and a special feature of this text, is its lengthy coverage of the securitization of assets and the large mortgage market. Securitization is the process by which a security, whose collateral is the cash flow from a pool of individually illiquid and often small assets, is created and sold in the capital markets. Asset securitization has been a major innovation of the past 20 years and represents a radical departure from the traditional system for managing and acquiring many kinds of assets. The mortgage-backed security is the prime example of this process and accounts for the largest part of the market for securitized assets. However, the issuance of securitized pools of credit card debt, auto loans, and other consumer liabilities is becoming a very important part of international financial markets. The text devotes a considerable amount of time to securitized assets and their markets and offers chapters on mortgage loan securitization as well as the securitization of other assets.

The second difference is our commitment to giving the students a substantial amount of information and analysis regarding international or global topics in finance. Our discussions range across a wide field, encompassing markets for bonds and stocks as well as mutual funds in Tokyo, London, Frankfurt, and Paris, among other places. The text gives some detailed explanations about the operations, structure, and regulation of these major markets and institutions. Just a glance at the table of contents shows that this book covers many international topics, which today's students must know in order to function in the increasingly integrated international financial system where they will soon be working.

The third difference is the book's extensive coverage of the markets for derivative securities, such as options, futures, swaps, customized agreements for controlling interest rate risk, and so on. These derivative securities and their markets grow ever more important in global finance. Though the popular press often criticizes and misrepresents these instruments, derivatives enable financial practitioners to control risk and the cost of funding. Because of these instruments, financial markets in the United States and throughout the world are more efficient and can contribute more to economic development and growth.

Our discussion of options naturally contains an explanation of the theoretical principles of pricing. We often show that option pricing theory also applies to complex securities that have embedded options. For example, many kinds of bonds contain option-like provisions: Issuers may exercise some, and holders may exercise others. Students need to understand options and pricing theory if they are to grasp the valuation of many of today's important assets. Although the text does not delve deeply into trading strategies, it does contain a great deal of information on these contracts and is suitable as a supplementary text for a course dealing with derivatives.

PLANNING AND MANAGING A COURSE

We do not believe that an instructor has the time in a single semester to treat all the topics covered by this book. The following table contains our suggestions for the chapters that should be included in a one-semester course on financial markets and institutions. The table also identifies those chapters that render the text a useful supplement for a course in investments or one in derivative securities.

Chapter number and title	One-semester course on markets and institutions	Supplement for course on:	
		derivatives	investments
1. Introduction	x		
2. Financial Intermediaries and Financial Innovation	x		
3. The Role of Government in Financial Markets	x		
4. Depository Institutions: Activities and Characteristics	x		
5. Central Banks and the Creation of Money	x		
6. Monetary Policy	x		
7. Insurance Companies	x		
8. Investment Companies	x		
9. Pension Funds	x		
10. Properties and Pricing of Financial Assets	(a)	(a)	x
11. Determinants of the Level and Structure of Interest Rates	x	x	x
12. The Term Structure of Interest Rates	x	x	x
13. Risk and Return and Asset Pricing Models	(a)	(a)	x
14. Primary Markets and the Underwriting of Securities	x		x
15. Secondary Markets	x		x
16. Treasury and Agency Securities Markets	x		x
17. Municipal Securities Markets	x		x
18. Common Stock Markets	x		x
19. Stock Markets around the World	x		x
20. Markets for Corporate Senior Instruments: I	x		x
21. Markets for Corporate Senior Instruments: II	x		x
22. The Market for Bank Obligations	x		x
23. Mortgage Market	x		x
24. Mortgage-Backed Securities Markets	x		x
25. Asset Securitization Markets	x		x
26. Financial Futures Markets	x	x	x
27. Options Markets	x	x	x
28. Pricing of Futures and Options Contracts	x	x	x
29. The Applications of Futures and Options Contracts		x	x
30. Interest Rate Swap and Interest Rate Agreement Markets		x	x
31. The Market for Foreign Exchange Rate Risk Control Instruments		x	x

Note: (a) This chapter should be covered if students have not learned this material in an earlier course.

CHANGES FROM THE FIRST EDITION

We have changed the text in several ways. First, we have updated all discussions of financial institutions in the United States and around the world, and we have revised the tables and charts, using the most current information and numbers we could find. Second, we have added a new chapter—chapter 25—which deals with asset-backed securities. Third, we have revised many of the end-of-chapter questions and increased the number of questions in various chapters. Finally, we have included some new topics, such as exotic options in chapter 27, and have increased the space devoted to numerous topics. They include NASDAQ regulation, bond pricing, spot and forward interest rates, medium term and structured notes, and collateralized mortgage obligations, among other things.

RENEWING OUR PLEDGE

As we wrote in our first edition, we would like those who adopt this text to tell us about their experiences with it. Please, let us know where you find the book helpful and where it needs changing. Also, we would like to see outlines and syllabi of courses for which this book has been adopted. We have devoted many, many hours to producing both the first and second editions, and we definitely want to know how beneficial our efforts have been to the people who use the text. If all continues to go well, there will be future editions of this book, and we want them to be as good as they can be. For that, we will need your help. For your help, we will all be grateful.

ACKNOWLEDGMENTS

We wish to acknowledge a number of people who have helped us in numerous respects, but who do not bear the burden of any errors or mistakes that may appear in the text. The following people, listed in alphabetical order, read some part or other of the material that has gone into the first or second edition of this text: Joseph Bencivenga (Bankers Trust Securities), Anand Bhattacharya (Prudential Securities), Daniel T. Coggin (Gerber/Taylor Associates), Bruce Collins (Western Connecticut State University), Jack Clark Francis (Baruch College, CUNY), Gary L. Gastineau (American Stock Exchange), K.C. Ma (Consultant), Scott Richard (Miller, Anderson & Sherrerd), and Uzi Yaari (Rutgers University).

Over the last few years, we have benefited from discussions on a host of relevant topics with the following individuals: Robert Arnett (First Quadrant), Paul Asquith (MIT), Douglas Bendt (Mortgage Risk Assessment Corp.), Peter Bernstein (Peter L. Bernstein Inc.), John H. Carlson (Fidelity Investments), Peter Carril, Jr. (Bankers Trust Securities), John Crockett (George Mason University), Ravi Dattatreya (Sumitomo Bank Capital Markets), Sylvan Feldstein (Guardian Life Insurance), Henry Gabbay (BlackRock Financial Management), Joseph P. Guagliardo (FNX), Gerald Hanweck (George Mason University), Arthur Hogan (Office of Thrift Supervision), Jane Howe (Pacific Investment Management Company), David P. Jacob (Nomura Securities), Frank J. Jones (Guardian Life Insurance Company), Andrew Kalotay (Andrew Kalotay Associates), Frank Keane (Federal Reserve Bank of New York), Robert Kieschnick (Federal Communications Commission), Martin Liebowitz (CREF), Ed Murphy (Merchants Mutual Insurance Co.), Scott Pinkus (Goldman Sachs), Mark Pitts (White Oak Capital Man-

agement), Chuck Ramsey (Mortgage Risk Assessment Corp.), Sharmin Mossavar-Rahmani (Goldman Sachs Asset Management), Frank Ramirez (First Southwest), Michael Rosenberg (Merrill Lynch), Dexter Serft (Lehman Brothers), Richard Wilson (Fitch Investors Service and Ryan Labs), and Jot Yau (George Mason University).

In our end-of-chapter questions, we use excerpts from *Institutional Investor* and several weekly publications of Institutional Investor Inc., *Wall Street Letter*, *Bank Management Letter*, and *Portfolio Letter*. We are grateful to Tom Lamont, editor of the weekly publications, for permission to use this material. We thank the following organizations for granting us permission to reproduce data: the Foundation Center, Institutional Investor, the Investment Company Institute, A.M. Best Company, and Crain Communications.

Several people served as reviewers of much or all of the material that is contained in this text, and we thank them here: Helen M. Bowers, Wake Forest University; Inayat U. Mangla, Western Michigan University; and Richard Puntillo, University of San Francisco.

Our friends at Prentice Hall have assisted us in ways too numerous to mention, and we want to acknowledge these folks here: Paul Donnelly, senior editor; Gladys Soto, assistant editor; MaryBeth Sanok, editorial assistant; and Judy Leale, production editor. Michael Ferri also wishes to thank his wife, Mary, and Mrs. Karen Powers, who helped him with the preparation of a part of the manuscript.

Finally, we must express our gratitude to our families, who tolerated much as this second edition was being written and produced.

Frank J. Fabozzi
Franco Modigliani
Michael G. Ferri



BIOGRAPHICAL SKETCHES



Frank J. Fabozzi is an Adjunct Professor of Finance at the School of Management at Yale University and editor of the *Journal of Portfolio Management*. From 1986 to 1992, he was a full-time member of the Finance faculty at the Sloan School of Management at MIT. Dr. Fabozzi has authored and edited several widely acclaimed books in finance. He is on the board of directors of the BlackRock complex of closed-end funds and the Guardian Park Avenue Portfolio family of open-end funds. He earned a doctorate in Economics in 1972 from The Graduate Center of the City University of New York and is a Chartered Financial Analyst. In 1994 he was awarded an honorary doctorate of Humane Letters from NOVA Southeastern University.

Franco Modigliani is Institute Professor and Professor of Finance and Economics at MIT. He is an Honorary President of the International Economic Association and a former President of the American Economic Association, the American Finance Association, and the Econometric Society. He is a member of several academies, including the National Academy of Science. Professor Modigliani has authored numerous books and articles in economics and finance. In October 1985, he was awarded the Alfred Nobel Memorial Prize in Economic Sciences. He has served as a consultant to the Federal Reserve System, the U.S. Treasury Department, and a number of European banks, as well as to many businesses, and is on several Boards of Directors. Professor Modigliani received a Doctor of Jurisprudence in 1939 from the University of Rome and a Doctor of Social Science in 1944 from the New School for Social Research, as well as several honorary degrees.

Michael G. Ferri is a Professor of Finance at George Mason University in Fairfax, Virginia, and holds the GMU Foundation Chair in Finance. He received his doctorate in economics from the University of North Carolina in 1975. His numerous articles on financial markets and investments have appeared in a variety of financial and economic journals. He is on the editorial advisory board of the *Journal of Portfolio Management* and several academic journals. He has been a vice-president of the Financial Management Association International and has served as a consultant to agencies of the U.S. government and to several major financial institutions. In 1997, Dr. Ferri held the Coenen Visiting Professorship in the Darden School of the University of Virginia.

BRIEF TABLE OF CONTENTS

Part I INTRODUCTION _____	1	Part VI MARKETS FOR GOVERNMENT DEBT _____	300
Chapter 1 Introduction	1	Chapter 16 Treasury and Agency Securities Markets	300
Chapter 2 Financial Intermediaries and Financial Innovation	17	Chapter 17 Municipal Securities Markets	365
Chapter 3 The Role of the Government in Financial Markets	34		
Part II DEPOSITORY INSTITUTIONS _____	52	Part VII MARKETS FOR CORPORATE SECURITIES _____	338
Chapter 4 Depository Institutions: Activities and Characteristics	52	Chapter 18 Common Stock Markets in the United States	338
Chapter 5 Central Banks and the Creation of Money	84	Chapter 19 Stock Markets around the World	365
Chapter 6 Monetary Policy	102	Chapter 20 Markets for Corporate Senior Instruments: I	385
		Chapter 21 Corporate Senior Instruments: II	401
Part III NON-DEPOSITORY FINANCIAL INTERMEDIARIES _____	122	Chapter 22 The Markets for Bank Obligations	423
Chapter 7 Insurance Companies	122		
Chapter 8 Investment Companies	139	Part VIII MORTGAGE AND SECURITIZED ASSET MARKETS _____	435
Chapter 9 Pension Funds	159	Chapter 23 The Mortgage Market	435
		Chapter 24 Mortgage-Backed Securities Market	454
Part IV DETERMINANTS OF ASSET PRICES AND INTEREST RATES _____	173	Chapter 25 Asset-Backed Securities Market	488
Chapter 10 Properties and Pricing of Financial Assets	173		
Chapter 11 The Level and Structure of Interest Rates	198	Part IX MARKETS FOR DERIVATIVE SECURITIES _____	499
Chapter 12 The Term Structure of Interest Rates	223	Chapter 26 Financial Futures Markets	499
Chapter 13 Risk/Return and Asset Pricing Models	246	Chapter 27 Options Markets	523
		Chapter 28 Pricing of Futures and Options Contracts	550
Part V ORGANIZATION AND STRUCTURE OF MARKETS _____	271	Chapter 29 The Applications of Futures and Options Contracts	574
Chapter 14 Primary Markets and the Underwriting of Securities	271	Chapter 30 Interest Rate Swap and Interest Rate Agreement Market	590
Chapter 15 Secondary Markets	288	Chapter 31 The Market for Foreign Exchange Rate Risk Control Instruments	617
		Index	639

TABLE OF CONTENTS



Preface xv
Acknowledgments xviii
Biographical Sketches xx

Part I INTRODUCTION

Chapter 1 Introduction 1

Financial Assets 2

Debt versus Equity Claims 3 ♦ The Price of a Financial Asset and Risk 3 ♦
Financial Assets versus Tangible Assets 4 ♦ The Role of Financial Assets 4

Financial Markets 6

Role of Financial Markets 6 ♦ Classification of Financial Markets 6 ♦
Market Participants 7

Globalization of Financial Markets 8

Classification of Global Financial Markets 9 ♦ Motivation for Using Foreign
Markets and Euromarkets 10

Derivative Markets 11

Types of Derivative Instruments 11 ♦ The Role of Derivative Instruments 12

Summary 13

Chapter 2 Financial Intermediaries and Financial Innovation 17

Financial Institutions 18

Role of Financial Intermediaries 19

Maturity Intermediation 20 ♦ Reducing Risk via Diversification 20 ♦
Reducing the Cost of Contracting and Information Processing 21 ♦ Providing
a Payments Mechanism 21

Overview of Asset/Liability Management for Financial Institutions 22

Nature of Liabilities 23 ♦ Liquidity Concerns 24 ♦ Regulations and Taxation 25

Financial Innovation 25

Categorizations of Financial Innovation 25 ♦ Motivation
for Financial Innovation 26

Asset Securitization as a Financial Innovation 27

Benefits to Issuers 28 ♦ Benefits to Investors 29 ♦ Benefits to Borrowers 29 ♦
Implications of Securitization for Financial Markets 29 ♦ Social Benefits 30

Summary 31

Chapter 3 The Role of the Government in Financial Markets 34

Purposes and Forms of Regulation 35

Justification for Regulation 35 ♦ An Introduction to Forms of Regulation 36

Regulation in the United States 37

Regulation in Japan 41

Regulation in Germany 43

Regulation in the United Kingdom 45

Regulatory Reform 47
Summary 48

Part II DEPOSITORY INSTITUTIONS _____ 52

Chapter 4 Depository Institutions: Activities and Characteristics 52

Asset/Liability Problem of Depository Institutions 53
Interest Rate Risk 54 ♦ Liquidity Concerns 55

Commercial Banks 56
Bank Services 61 ♦ Bank Funding 62 ♦ Regulation 65

Savings and Loan Associations 72
Assets 72 ♦ Funding 74 ♦ Regulation 74 ♦ The S&L Crisis 75

Savings Banks 77

Credit Unions 77

Summary 78

Chapter 5 Central Banks and the Creation of Money 84

The Central Bank and Money Creation in the United States 85
The Central Bank of the United States: The Federal Reserve System 85 ♦
Instruments of Monetary Policy: How the Fed Influences the Supply of Money 86
♦ Different Kinds of Money 89 ♦ Money and Monetary Aggregates 89 ♦ The Money
Multiplier: The Expansion of the Money Supply 91 ♦ The Impact of Interest Rates
on the Money Supply 93 ♦ The Money Supply Process in an Open Economy 94

The Central Banks of Other Countries 96
Germany 96 ♦ Japan 97 ♦ United Kingdom 97

Summary 99

Chapter 6 Monetary Policy 102

Monetary Policy in the United States 103
Goals of Monetary Policy 103 ♦ Trade-Offs and Conflicts among Policies 108 ♦
Goals and Types of Targets 108 ♦ Choosing the Operating Target 109 ♦ Choosing
the Intermediate Target 110 ♦ A Review of Recent Federal Reserve Policy 111

Goals and Targets of Monetary Policy in Other Economies 116
Germany 116 ♦ Japan 117 ♦ United Kingdom 118

Summary 120

Part III NON-DEPOSITORY FINANCIAL INTERMEDIARIES _____ 122

Chapter 7 Insurance Companies 122

Fundamental Characteristics of the Insurance Industry 123
Insurance Policy and Premiums 123 ♦ Surplus and Reserves 124 ♦ Determination
of Profits 124 ♦ Government Guarantees 125 ♦ Regulation 125

Life Insurance Companies 126
Liabilities and Liability Risk 127 ♦ Types of Policies 127 ♦ Investments 130

Property and Casualty Insurance Companies 131
Nature of the Liabilities 131 ♦ Investments 132

Financial Trends in the International Insurance Industry 133
Bancassurance 133 ♦ Cross-Border Activities 134 ♦ Pension Funds
and Insurance Companies 135

Summary 135

Chapter 8 Investment Companies	139
Types of Investment Companies	140
Open-End Funds	140
Closed-End Funds	141
Unit Trusts	143
Structure and Expenses of a Fund	144
Types of Funds by Investment Objective	144
Economic Motivation for Funds	146
Regulation of Funds	147
Commercial Banks and Mutual Funds	149
The Concept of a Family of Funds	150
Industry Concentration	151
Mutual Funds in Other Economies	151
United Kingdom	151
Germany	153
Japan	154
Summary	156
Chapter 9 Pension Funds	159
Introduction to Pension Plans	160
Types of Pension Plans	161
Defined Contribution Plan	161
Defined Benefit Plan	162
Hybrid Pension Plans	162
Investments	163
Regulation	164
Managers of Pension Funds	165
Pension Funds in Other Countries	166
Germany	166
United Kingdom	167
Japan	168
Summary	169
Appendix: Endowment Funds	170
Part IV DETERMINANTS OF ASSET PRICES AND INTEREST RATES	173
Chapter 10 Properties and Pricing of Financial Assets	173
Properties of Financial Assets	174
Moneyiness	174
Divisibility and Denomination	174
Reversibility	174
Cash Flow	175
Term to Maturity	176
Convertibility	176
Currency	176
Liquidity	177
Return Predictability	177
Complexity	178
Tax Status	179
Principles of Pricing Financial Assets	179
The Appropriate Discount Rate	180
Illustration	180
Price and Asset Properties	181
Price Volatility of Financial Assets	183
The Effect of Maturity	184
The Effect of the Coupon Rate	184
The Effect of the Level of Yields	186
Measuring Price Sensitivity to Interest Rate Changes: Duration	187
Summary	192
Appendix: Review of Present Value	194
Chapter 11 The Level and Structure of Interest Rates	198
The Theory of Interest Rates	199
Fisher's Classical Approach	199
The Loanable Funds Theory	203
The Liquidity Preference Theory	204
Changes in the Money Supply and Interest Rates	205

The Determinants of the Structure of Interest Rates 208
Features of a Bond 208 ♦ Yield on a Bond 209 ♦ The Base Interest Rate 212 ♦
The Risk Premium 212
Summary 217

Chapter 12 The Term Structure of Interest Rates 223

The Yield Curve and the Term Structure 224
Using the Yield Curve to Price a Bond 225 ♦ Constructing the Theoretical Spot
Rate Curve 226 ♦ Using Spot Rates to Value a Bond 229
Forward Rates 230
Other Forward Rates 233 ♦ Relationship between Spot Rates and Short-Term
Forward Rates 234 ♦ Forward Rate as a Hedgeable Rate 235
Determinants of the Shape of the Term Structure 235
The Pure Expectations Theory 236 ♦ The Liquidity Theory 239 ♦ The Preferred
Habitat Theory 240 ♦ Market Segmentation Theory 241
Summary 242

Chapter 13 Risk/Return and Asset Pricing Models 246

Portfolio Theory 247
Investment Return 247 ♦ Portfolio Risk 249 ♦ Diversification 252 ♦ The Risk
of Individual Securities 254 ♦ Estimating Beta 257
The Capital Asset Pricing Model 258
Underlying Assumptions 260 ♦ Tests of the Capital Asset Pricing Model 261
Multifactor CAPM 263
Arbitrage Pricing Theory Model 264
Empirical Evidence 265
Summary 267

Part V ORGANIZATION AND STRUCTURE OF MARKETS _____ 271

Chapter 14 Primary Markets and the Underwriting of Securities 271

The Traditional Process for Issuing New Securities 272
Investment Bankers 274
Regulation of the Primary Market 275
Variations in the Underwriting Process 277
Bought Deal 277 ♦ Auction Process 278 ♦ Preemptive Rights Offering 280
Private Placement of Securities 282
Rule 144A 283
Summary 284

Chapter 15 Secondary Markets 288

Function of Secondary Markets 289
Trading Locations 290
Market Structures 290
Perfect Markets 291
Role of Brokers and Dealers in Real Markets 292
Brokers 293 ♦ Dealers as Market Makers 293
Market Efficiency 295
Operational Efficiency 295 ♦ Pricing Efficiency 296
Summary 296

Part VI	MARKETS FOR GOVERNMENT DEBT	300
Chapter 16	Treasury and Agency Securities Markets	300
	Treasury Securities 301	
	Types of Treasury Securities 301 • The Primary Market 302 • The Secondary Market 306 • Stripped Treasury Securities 311 • Coupon Stripping and the Theoretical Value of Treasury Securities 313	
	Federal Agency Securities 316	
	Government-Sponsored Enterprise Securities 316	
	A Look at Non-U.S. Government Bond Markets 319	
	Summary 321	
Chapter 17	Municipal Securities Markets	325
	Types and Features of Municipal Securities 326	
	General Obligation Bonds 326 • Revenue Bonds 327 • Hybrid and Special Bond Securities 327 • Municipal Notes 328 • Redemption Features 329	
	Municipal Bond Ratings 329	
	Tax Risks Associated with Investing in Municipal Securities 331	
	The Primary Market 332	
	The Secondary Market 332	
	Yields on Municipal Bonds 333	
	Regulation of the Municipal Securities Market 334	
	Summary 335	
Part VII	MARKETS FOR CORPORATE SECURITIES	338
Chapter 18	Common Stock Markets in the United States	338
	Characteristics of Common Stock 339	
	Trading Locations 339	
	Stock Exchanges 340 • Over-the-Counter Market 341 • Independent Electronic Trading Systems 341 • Trading Mechanics 342 • Short-Selling 344 • Margin Transactions 345 • Transactions Costs 346 • Role of Dealers in Exchanges and OTC Markets 347 • The National Market System 348 • The SEC's Look into the Future: <i>Market 2000</i> 349	
	Trading Arrangements for Institutional Investors 350	
	Block Trades 351 • Program Trades 352	
	Stock Market Indicators 353	
	Pricing Efficiency of the Stock Market 356	
	Forms of Efficiency 356 • Implications for Investing in Common Stock 357	
	The Stock Market Crash of 1987 358	
	Summary 360	
Chapter 19	Stock Markets around the World	365
	National Stock Markets 366	
	Multiple Listings on National Markets 366 • Global Diversification: Correlation of World Equity Markets 370 • Ownership and Control of National Stock Markets 371 • Trading Procedures and Computerization 374 • Dealers in Major Markets 375 • Stock Market Indexes 376	
	Euroequity Issues 378	
	Global Depository Receipts 380	
	Summary 381	

Chapter 20	Markets for Corporate Senior Instruments: I	385
	Credit Risk and the Role of Rating Companies	386
	Commercial Paper	387
	Issuers of Commercial Paper 388 ♦ Directly Placed versus Dealer-Placed Paper 389 ♦ Non-U.S. Commercial Paper Markets	390
	Medium-Term Notes	391
	Size of Market and Issuers 391 ♦ The Primary Market 392 ♦ Structured MTNs	394
	Euronotes	394
	Bank Loans	395
	Syndicated Bank Loans 396 ♦ Lease Financing	397
	Summary	398
Chapter 21	Corporate Senior Instruments: II	401
	Corporate Bonds	402
	Basic Features of a Corporate Bond Issue 402 ♦ Bonds with Special Features 405 ♦ Corporate Bond Credit Ratings 407 ♦ High-Yield Sector 410 ♦ Secondary Market 413 ♦ Eurobond Market	413
	Preferred Stock	415
	Adjustable-Rate Preferred Stock 416 ♦ Auction and Remarketed Preferred Stock	417
	Bankruptcy and Creditor Rights	418
	Summary	419
Chapter 22	The Markets for Bank Obligations	423
	Types of Banks Operating in the United States	424
	Large-Denomination Negotiable CDs	424
	CD Issuers 425 ♦ Yields on CDs	426
	Federal Funds	427
	Federal Funds Rate 428 ♦ Market for Federal Funds	428
	Bankers Acceptances	429
	Illustration of the Creation of a Bankers Acceptance 430 ♦ Accepting Banks 431 ♦ Dealers 431 ♦ Credit Risk	432
	Summary	432
Part VIII	MORTGAGE AND SECURITIZED ASSET MARKETS	435
Chapter 23	The Mortgage Market	435
	What Is a Mortgage?	436
	Mortgage Origination	436
	The Mortgage Origination Process 437 ♦ The Risks Associated with Mortgage Origination	439
	Types of Mortgage Design	440
	Fixed-Rate, Level-Payment, Fully Amortized Mortgages 441 ♦ Adjustable-Rate Mortgages 444 ♦ Other Mortgage Designs	446
	Investment Risks	450
	Credit Risk 450 ♦ Liquidity Risk 450 ♦ Price Risk 450 ♦ Prepayments and Cash Flow Uncertainty	450
	Summary	451