

# Contents

|  |            |
|--|------------|
| <b>Foreword</b> .....  | <b>vii</b> |
| <b>1. The World of Money</b> .....                             | <b>1</b>   |
| I. Money and Interest .....                                    | 2          |
| <i>Exercises</i> .....   | 6          |
| II. The Markets for Money .....                                | 7          |
| III. Banks, Bankers' Banks, and the Euromarket .....           | 15         |
| IV. A Simple Case Study .....                                  | 20         |
| V. Financial Market Structure, and Final Remarks .....         | 24         |
| <i>Exercises</i> .....   | 25         |
| VI. Appendix .....   | 26         |
| <i>Exercises</i> .....   | 27         |
| <b>2. Banking and Banks</b> .....                              | <b>29</b>  |
| I. Commercial Banks .....                                      | 32         |
| II. Some Basic Bank Accounting and the Basle Overtures .....   | 37         |
| <i>Exercises</i> .....   | 42         |
| III. Investment Banks and Private Banks .....                  | 42         |
| IV. Background to the World Bank and IMF .....                 | 48         |
| V. Conclusion: The One and Only Wall Street .....              | 56         |
| VI. Appendix: Hiding and Laundering Money .....                | 58         |
| <i>Exercises</i> .....   | 62         |
| <b>3. An Applicable Introduction to the Stock Market</b> ..... | <b>63</b>  |
| I. Random Walk versus Non-Random Walk .....                    | 66         |
| II. A Stock Market Fable .....                                 | 70         |
| III. The Stock Market in a Larger Perspective .....            | 81         |
| IV. Why Monday, October 19, Was Black Instead of Green .....   | 84         |

|  |            |
|--|------------|
| V. Past the Brink and Heading South .....                          | 89         |
| VI. Noise, Bubbles, and Fads .....                                 | 93         |
| VII. Warrants and Convertibles .....                               | 96         |
| VIII. Final Remarks .....  | 98         |
| <i>Exercises</i> .....   | 100        |
| <b>4. Introducing Futures and Options .....</b>                    | <b>103</b> |
| I. Simple Options and Swaps .....                                  | 104        |
| <i>Exercises</i> .....   | 106        |
| <i>Exercises</i> .....   | 109        |
| <i>Exercises</i> .....   | 114        |
| II. The Next Lesson in Futures .....                               | 115        |
| <i>Exercises</i> .....   | 119        |
| <i>Exercises</i> .....   | 125        |
| III. The Next Lesson in Options .....                              | 126        |
| IV. Conclusion: The Black–Scholes Equation .....                   | 130        |
| V. Appendix: More Options Theory .....                             | 132        |
| <i>Exercises</i> .....   | 134        |
| <b>5. An Introduction to Exchange Rates .....</b>                  | <b>135</b> |
| I. Some Elementary Definitions .....                               | 136        |
| II. Introduction to Exchange Rates .....                           | 137        |
| III. Forward Rates: A Technical Note .....                         | 147        |
| IV. Elementary Arbitrage .....                                     | 149        |
| <i>Exercises</i> .....   | 152        |
| V. Trade Weighted Exchange Rates and Purchasing Power Parity ..... | 152        |
| <i>Exercises</i> .....   | 155        |
| VI. Final Comment .....  | 158        |
| <i>Exercises</i> .....   | 158        |
| <b>6. Interest Rates, Yields, and Bonds .....</b>                  | <b>161</b> |
| I. Interest Rates and Annuities .....                              | 163        |
| <i>Exercises</i> .....   | 167        |
| II. Coupon and Discount Bonds .....                                | 168        |
| <i>Exercises</i> .....   | 172        |

|   |            |
|---|------------|
| III. Bonds Limited and Unlimited .....                            | 177        |
| <i>Exercises</i> .....  | 183        |
| IV. Some Important Calculations .....                             | 184        |
| V. Yield Curves and the Term Structure of the Interest Rate ..... | 187        |
| <i>Exercises</i> .....  | 198        |
| VI. Conclusion .....  | 198        |
| VII. Appendix 1: Debt-for-Equity Swaps and Brady Bonds .....      | 200        |
| VIII. Appendix 2: Duration .....                                  | 202        |
| <i>Exercises</i> .....  | 204        |
| <b>7. Global Finance .....</b>                                    | <b>205</b> |
| I. Some General Background .....                                  | 207        |
| II. Currency Classifications and Seigniorage .....                | 208        |
| III. Interest Arbitrage .....                                     | 210        |
| <i>Exercises</i> .....  | 213        |
| IV. Interest Rate and Currency Swaps .....                        | 216        |
| <i>Exercises</i> .....  | 220        |
| V. Swap Agreements .....  | 222        |
| VI. Conclusion .....  | 225        |
| <i>Exercises</i> .....  | 226        |
| <b>8. Risk, Uncertainty, and Financial Assets .....</b>           | <b>229</b> |
| I. Expectation and Variance .....                                 | 230        |
| <i>Exercises</i> .....  | 234        |
| <i>Exercises</i> .....  | 237        |
| II. Some Statistical Observations .....                           | 237        |
| <i>Exercises</i> .....  | 239        |
| III. Portfolio Selection: The Mean Variance Approach .....        | 240        |
| IV. Diversification .....   | 243        |
| V. The Capital Asset Pricing Model .....                          | 245        |
| VI. Rational Expectations and Efficient Markets .....             | 249        |
| VII. Value Additivity, and Conclusion .....                       | 255        |
| <b>9. Into the 21st Century .....</b>                             | <b>259</b> |
| I. Real and Paper Technology .....                                | 260        |

|  |            |
|--|------------|
| II. A Tale of Two Americas .....   | 262        |
| III. An Asian Crisis .....   | 265        |
| IV. Apparently, the World is Not Enough .....  | 267        |
| V. The Final Countdown: Two Final Observations on<br>Financial Fact and Theory ..... | 270        |
| VI. Conclusion: A Word to the Wise.....  | 278        |
| <i>Exercises</i> .....   | 280        |
| <b>Glossary</b> .....  | <b>281</b> |
| <b>References</b> .....  | <b>307</b> |
| <b>Index</b> .....   | <b>311</b> |