

Stocks

Ownership shares of a corporation

Share price \$86

of shares 2.49 billion

Market value \$214 billion

1. Secondary markets

Where securities are traded after their initial sale

Why Important?

Greater demand (and higher price) for marketable securities

→ Helps the borrowers

2. Two Special Debt Instruments

A. U.S. Treasury Bonds

Bonds used to fund national debt

- Very low default risk

- Used in monetary policy

B. Home Mortgages

Loan contract for home buyers

- Like a bond

- Typically mature in 30 years

- Difficult to rate

3. Securitization

(creation of a financial asset (security) by combining other financial assets)

Ex: Mortgage-backed securities

Real vs. Nominal Interest Rates

R = nominal interest rate

rate of return in dollars; not adjusted for inflation

r = Real interest rate

rate of return in real purchasing power; adjusted for inflation

Fisher equation

$$R - i = r$$

R	i	r
5	0	5
5	3	2
5	6	-1

Growth Economics

Life Indicators	Poor	Rich
GDP per capita	\$1,095	\$32,971
Infant mortality rate (per 1,000)	76	5
Under-5 mortality rate (per 1,000)	118	6
Life expectancy at birth	57	80
Physicians (per 10,000)	1.8	29.3
Access to improved water (percent)	64	100
Female/male Secondary enrollment (ratio)	0.84	0.99
Female/male post-Secondary enrollment (ratio)	0.64	1.21