

Financialization (III): Financial assets

Principles of Economics // Fall 2025

Prof. Santetti

marcio.santetti@emerson.edu

Quick recap

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From our last lectures, we learned that:

- *Households/individuals supply* funds in financial markets;
- *Businesses demand* funds in financial markets to expand their operations and increase profits.

Quick recap

- However, no one *supplies* or *demand* monetary funds for *free*.

Learning about *financial assets* helps us understand this *supply-and-demand relationship* in financial markets.

Financial assets

Financial assets

We will investigate a few *financial assets* in further detail:

- Stocks;
- Housing;
- Bonds.

Stocks

Stocks

Recall:

- $\text{Stock} \Rightarrow \text{ownership}$

Stocks

A *stock* consists of an ownership *share* of a business.

An individual/business who owns a share of a company is known as a *shareholder*.

Stocks

- old stock 1
- old stock 2
- old stock 3
- old stock 4

Stocks

The ownership of a *stock* provides someone a *return* in *two* forms:

- Dividends;
- Capital gains.

Which of these two gives money to the business?

Stocks

A (public) corporation's *stock price* is a signal of how *valuable* investors believe the company is.

Looking at stock prices

Stocks

- How to measure *overall* stock market performance?

Some measures

Stocks

The *Great Depression* (1929)

The *Dot-com bubble* (2000)

Housing

Housing

Households can purchase *tangible* assets, such as *housing*.

Example:

- Buy a house for \$200,000
- 10% as down payment
- Over time, pay off some of the mortgage
- Suppose \$100,000 remain
- And house market value rises to \$250,000
- What is the house's *equity*?

Housing

Median U.S. house sale prices

Housing

Other *tangible* assets?

In closing

Trump's undeniable stock market victory that no one saw coming (CNN)

Next time: Deficits & debt