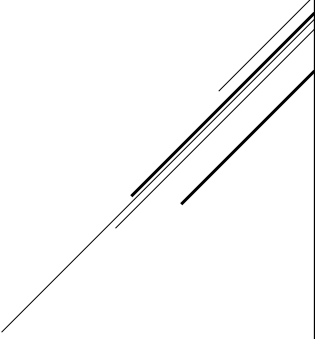


# A PRIMER ON FINANCIAL ASSETS

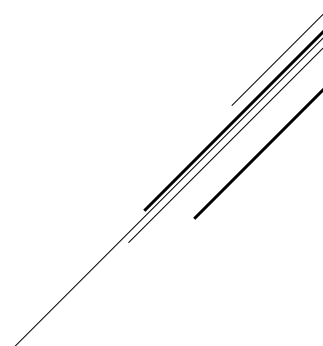


## WHAT WILL YOU LEARN?

- ▶ What is a financial asset?
  - ▶ How is it different than a real asset?
  - ▶ What are important features of broad classes of financial assets?
- 

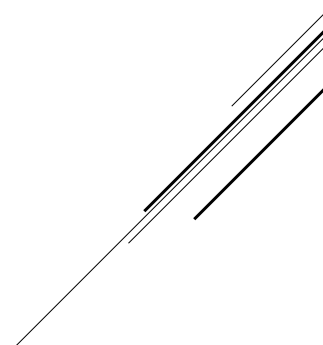
## FINANCIAL ASSETS VS. REAL ASSETS

- ▶ Financial assets are claims to future cash flows.
- ▶ Real assets are what produce goods and services in the economy: land, building, machinery etc.

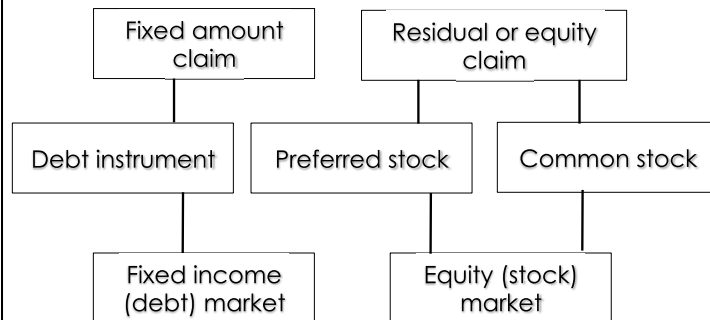


## FINANCIAL ASSETS

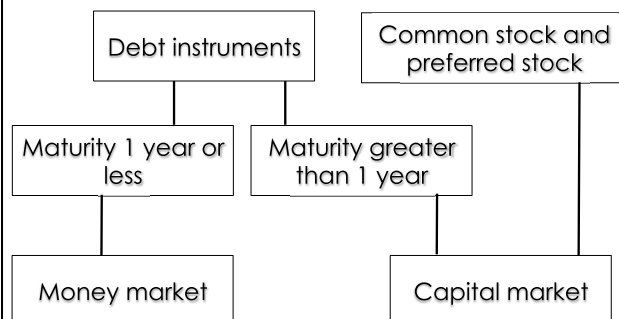
- ▶ A bond issued by the U.S. Department of Treasury
- ▶ A bond issued by Apple
- ▶ A bond issued by the state of California
- ▶ A bond issued by the government of Greece
- ▶ A home mortgage loan
- ▶ Common stock issued by Microsoft
- ▶ Common stock issued by Honda Motor Company



## FINANCIAL ASSETS



## FINANCIAL ASSETS



## CLASSES OF FINANCIAL ASSETS

### ► Fixed income or debt instruments

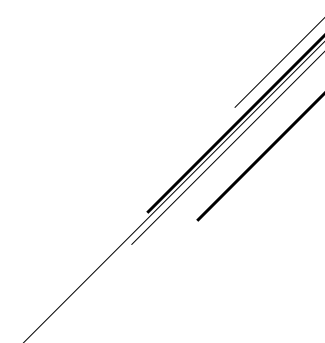
- Promise to pay a pre-determined stream of cash flows in the future
- Money market: Short-term (less than one year), low-risk debt instruments, typically very liquid
- Debt (Bond) market: Longer-term debt instruments, less liquid

### ► Equity instruments

- Residual claim
- Represents ownership shares of a corporation

### ► Derivative securities

- Contracts that derive their value from the underlying financial assets



## ROAD MAP

- Fixed income securities: Money market instruments
- Fixed income securities: Long-term debt instruments
- Equity securities
- Derivative securities
- Traditional vs. alternative asset classes

