

Money Market Characteristics:

- Short-term
- Low-risk
- Liquid

In bankruptcy, bondholders are paid before stockholders.

Floating Rate Bond:  $\uparrow$  Fluctuates

✓ Callable Bond: can be redeemed before redemption date

✓ Convertible Bond: can be converted to a fixed no. of stocks

4 Characteristics of Common Stock:

- Residual Claims
- Voting rights
- Not paid dividends, which is % of profit @ company's discretion

X Ownership share in company

4 Characteristics of Preferred Stock:

- Hybrid between bondholders and stockholders
- Not paid after bond but before stock holders
- Usually no voting rights

X No maturity date

If level dividend payments forever,

=> Price of Stock =  $\frac{div_t}{1-r}$  ~~X~~

*Handwritten derivation:*  $\frac{div}{r} + \frac{div}{1+r} + \frac{div}{(1+r)^2} + \dots = \frac{div}{r}$

If dividend payments growing by a multiple of (1+g) forever,

=> Price of Stock =  $\frac{div}{r-g}$  ✓

Futures

Price Change = Future P(t) - FP(t-1) ✓