

DEREE COLLEGE SYLLABUS FOR: FN 4352 FIXED INCOME SECURITIES
(Previously FN 4452)

3/0/3

(Spring 2016)

UK LEVEL 6
UK CREDITS: 15

PREREQUISITES:

FN 2028 Financial Mathematics or FN 3005 Foundations of Corporate Finance
FN 3032 Foundations of Investments
FN 3113 Corporate Finance

CATALOG DESCRIPTION:

Bond valuation and analytical tools necessary for understanding the functioning of fixed income markets as well as the risks associated with fixed income investments.

RATIONALE:

The course provides the basic framework for the valuation of a wide variety of complex fixed income securities, as well the key risks associated with these securities from the perspective of both the issuer and the investor.

LEARNING OUTCOMES:

1. Apply pricing strategies and evaluate the risk of fixed-income securities.
2. Interpret key factors that drive change in yields curves, and the structure of interest rates.
3. Synthesize knowledge on the spot and derivatives markets and conclude on their key characteristics
4. Evaluate the use of fixed income derivatives instruments in the construction and management of bond portfolios

METHOD OF TEACHING AND LEARNING:

In congruence with the teaching and learning strategy of the college the following tools are used:

- In-class exercises and real life examples that help lecturer to illustrate basic concepts, and techniques and involve the use of spreadsheet applications
- In-class interactive discussions using cases that aim to enhance students' analytical and critical capabilities as well as their communication skills. Students are expected to be prepared for in-class discussions and are encouraged to present and share their views and answers.
- Use of concept maps to provide an overview of topics discussed
- Group discussions - students are divided into groups to perform short research activities that involve the use of web search or the use of financial data bases
- Use of Blackboard
- Seminars by visiting scholars and professionals

ASSESSMENT:

Summative:

First Assessment: Individual coursework (1,800-2,200 words)	50
Second Assessment: In-class written examination (two-hours closed book exam, problems/essays combination)	50

Formative:

One Written assessment	0
Case discussion	0

The formative written assessment and the case discussion aims to prepare students for the examination.

The Coursework tests all Learning Outcomes with emphasis on LOs 2 & 3

The Final Examination tests all Learning Outcomes with emphasis on LOs 1 & 4

INDICATIVE READING:

REQUIRED READING:

Fabozzi. F. (2012). Bond Markets, Analysis and Strategies. *Prentice Hall*, 8th ed.

	<p>RECOMMENDED READING:</p> <ul style="list-style-type: none"> • Avramov, D., Jostova G., and A. Philipov (2007). Understanding Changes in Corporate Credit Spreads. <i>Financial Analysts Journal</i>, 63(2), 90-105. • Bernoth, K., von Hagen, J., and L. Schuknecht (2012). Sovereign Risk Premiums in the European Government Bond Market. <i>Journal of International Money and Finance</i>, 31(5), pp. 975-95. • Campbell, J. Y. and Taksler, G. B. (2003). Equity Volatility and Corporate Bond Yields. <i>Journal of Finance</i>, 58, 2321-2349. • Cantor, R. and F. Packer (1996). Determinants and Impact of Sovereign Credit Ratings. <i>FRBNY Economic Policy Review</i>, October, 37-53. • Chen, L., Lesmond D., and J. Wei (2007). Corporate Yield Spreads and Bond Liquidity. <i>Journal of Finance</i>, 119-149. • Favero, C., Pagano M., and E.L. von Thadden (2010). How Does Liquidity affect Bond Yields. <i>Journal of Financial and Quantitative Analysis</i>, 45(1), pp. 107-134 • Geyer, A., Kossmeier, S. and S. Pichler (2004). Measuring Systemic Risk in EMU Government Yield Spreads. <i>Review of Finance</i>, 8, 171-197. • Hagen, J., Schuknecht, L., and G. Wolswijk (2011). Government Risk Premiums in the EU Revisited: The Impact of the Financial Crisis. <i>European Journal of Political Economy</i>, 27(1), 36-43. • Hilsher, J. and Y. Nosbusch (2010). Determinants of Sovereign Risk: Macroeconomic Fundamentals and the Pricing of Sovereign Debt. <i>Review of Finance</i>, 14, 235-262. • Longstaff, F., Pan, J., Pedersen, L. and K. Singleton (2011). How Sovereign is Sovereign Credit Risk?, <i>American Economic Journal</i>, 32(2), 73-103.
INDICATIVE MATERIAL: (e.g. audiovisual, digital material, etc.)	N/A
COMMUNICATION REQUIREMENTS:	<ul style="list-style-type: none"> • Preparation of a research proposal as well as a pilot study for a given topic, submitted in Word. • Participation in class discussions should be delivered in a professional manner, using appropriate terminology, communication skills and techniques.
SOFTWARE REQUIREMENTS:	MS Office, Internet, Blackboard, Financial Data Bases
WWW RESOURCES:	www.bloomberg.com www.quicktake.morningstar.com http://finance.yahoo.com/ www.investinginbonds.com www.isda.org www.bis.org www.federalreserve.gov
INDICATIVE CONTENT:	<ul style="list-style-type: none"> • Bond pricing and yield measurement • Factors that determine the bond price volatility and the related risk metrics • Term structure of interest rates, forward yield curves, zero-coupon curve. • Structured securities and securities with embedded options. • Municipal securities, Mortgages, Asset-backed securities (ABSs) and Collateralized Debt Obligations (CDOs) • Corporate bonds and credit risk derivatives. • Interest rate futures, options, Interest Rate Swaps (IRSs), Caps and Floors.