

Fixed Income Market

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Learning Outcome:

The course is concentrated on analysis and description of bonds markets mechanics. Students will learn how fixed instruments are priced, what risks are embedded. Special attention is paid to how these risks are priced and can be eliminated.

The students will learn following core fixed income concepts:

1. Main features of debt securities, differences between equities and bonds;
2. Pricing methods;
3. Embedded risks;
4. Measurement of risks;
5. Influence of Macro factors on the bonds markets,

The following practical aspects will be considered:

1. Relative value analysis;
2. Trading strategies;
3. Bonds risks' hedging.

Syllabus:

1. Core features of debt securities.
2. Time value of money (FV, PV).
3. Bonds' yield measures.
4. Core risk measures. Value at risk.
5. Spot curve construction.
6. Bonds spreads.
7. Foreign exchange rates and interest rates.
8. Alternative benchmarks for bonds' comparison. Interest rates and cross currency rates curves.
9. Bonds portfolio risk and yield measures.
10. Bonds' hedging.
11. International investments. How to compare yields.
12. Bonds' credit risks.
13. How to hedge credit risks.
14. Securitization.

Prerequisites:

Fixed income market course is included into basic studies for first year Financial Analysts Master Programme.

Current course is based on the following studies:

- Economics;
- Corporate Finance;
- Equity market;
- Derivatives;
- Quantitative methods and statistics.

For successful studies students must be competent in the following:

- Understand relationship in the economy between central bank's policy, balance of payment, foreign exchange and inflation;
- Know present and future value of cash flow concepts;
- Understand and be able to implement trading strategies with derivatives;
- Understand how fair value of derivatives is calculated.

Appraisal:

Students will be examined taking into account the following:

1. Class activity – 30%
2. Homework – 30%
3. Final test – 40%

Homework includes tests which need to be solved using financial calculator or MS-Excel functions, additional materials readings, presentations preparation.

Final test includes multiple choice and essay tasks. Appraisal criteria include knowledge of the learned material and logics of the answer.

Reading materials

The Handbook Of Fixed Income Securities (8th edition) под ред. Frank J. Fabozzi (Publication Date: **December 16, 2011** | ISBN-10: **0071768467** | ISBN-13: **978-0071768467** | Edition: **8**).
(<http://www.amazon.com/Handbook-Fixed-Income-Securities-Eighth/dp/0071768467>)

Slides.

Энциклопедия финансового риск-менеджмента (4 издание) под ред. А.А.Лобанова, А.В. Чугунова (ALT invest, Москва, 2009)

Interest Rates Swaps and Their Derivatives. A Practicioner's Guide. Amir Sadr. (Publication Date: **September 8, 2009** | Series: **Wiley Finance (Book 510)**
(<http://www.amazon.com/Interest-Rate-Swaps-Their-Derivatives/dp/0470443944>)

Additional reading:

Options, Futures and other derivatives John C. Hull

(<http://www.amazon.com/Options-Futures-Derivatives-DerivaGem-Package/dp/0132777428>)

Schweser Notes for the 2015 CFA Exam.

Other sources:

Financial newspapers: Vedomosti, Kommersant