OBJECT OF COURSE

This course deals with an understanding of U.S. and global bond markets and traditional and evolving bond instruments including bond structures with embedded options. We will consider the techniques for valuing option-free bonds, the term structure of interest rates, the analysis of bonds with embedded options and the measurement of interest-rate risk.

REQUIRED MATERIAL


3. A packet of readings available at the N.D. Bookstore. Referred to as *Handout*. I will also hand out a set of recent newspaper articles that should provide some background on the recent environment in financial markets.

4. Subscription to the *Wall Street Journal*. Each class will begin with a brief discussion of current events in the bond market.

5. Students are required to bring a calculator to every class that will allow them to value and analyze fixed-income securities.
COURSE REQUIREMENTS

• Mid-Term Exam 25%
• Written Projects 15%
• Final Exam 40%
• Class Participation 20%

COURSE OUTLINE

I. BACKGROUND AND BUILDING BLOCKS

B. Fabozzi, Chapter 1: “Features of Debt Securities.”
C. Read the Chapter from any basic investments text on “Bond Fundamentals.”
D. Fabozzi, Chapter 2: “Risks Associated with Investing in Bonds.”
E. Fabozzi, Chapter 3: “Overview of Bond Sectors and Instruments.”
I. Fabozzi, Chapter 4: “Understanding Yield Spreads.”

II. BOND VALUATION AND YIELD MEASURES

A. Handout, Reilly & Brown, 10th edition, Chapter 18: “The Analysis and Valuation of Bonds.” This chapter includes many of the topics included in Fabozzi Chapters 5 and 6. The class discussion will consider both presentations.
B. Fabozzi, Chapter 5: “Introduction to the Valuation of Debt Securities.”
C. Fabozzi, Chapter 6: “Yield Measures, Spot Rates, and Forward Rates.”

III. INTEREST-RATE RISK AND THE TERM STRUCTURE OF RATES

A. Fabozzi, Chapter 7: “Introduction to the Measurement of Interest-Rate Risk.”
B. Fabozzi, Chapter 8: “Term Structure and the Volatility of Interest Rates.”
IV. MORTGAGE-BACKED SECURITIES AND ASSET-BACKED BONDS

A. Fabozzi, Chapter 10: “Mortgage-Backed Sector of the Bond Market”
B. Fabozzi, Chapter 11: “Asset-Backed Sector of the Bond Market”

V. BOND PORTFOLIO MANAGEMENT