Course Description
The objectives of this course are to
• describe important income rate securities and the mortgage market, and
• develop tools for valuing income rate derivatives, mortgage-backed securities and corporate bonds.

The course material builds on the content of Fixed Income Securities I – FIN 70650.

Schedule of Lectures (tentative)
1) No arbitrage pricing and Risk-neutral probabilities
2) Dynamic trading strategies
3) Interest rate modeling, calibration & hedging -- Problem set 1 due
4) Options
5) American options -- Problem set 2 due
6) Callable Bonds
7) Swaptions
8) MIDTERM EXAM
9) The mortgage market
10) Mortgage pools and pass-throughs, IOs and POs
11) CMOs
12) Caps, Floors and collars -- Problem set 3 due
13) Valuing corporate bonds – reduced form approach
14) FINAL EXAM

The study of fixed income securities is quantitative by nature and the material in this course is analytical. Please keep this in mind in deciding whether to take the course.
Course Materials
Required
- Lecture notes and problem sets. The lecture notes and handouts used in this course contain copyrighted materials. Please do not distribute without my written consent.

Recommended
There is no required text book for this course. However, I recommend you to consider buying (online) one of the following books:

Grading
Grades will be based on the following.
- Problem Sets (20%)
- Midterm (30%)
- Final (40%)
- Class Participation (10%)

Problem Sets
Because the material is analytical and new concepts build on old ones, it will be essential to do the problem sets in order to follow the lectures and succeed on the exams. I encourage students to work together on these problem sets in groups of up to 3 students. All students in the same group will get the same grade. Groups of students working together should submit just one assignment, at the beginning of the class as listed in the schedule. As I’ll hand out solution sets in that class, I will not accept late assignments.

Exams
Please bring a financial calculator, one 8.5x11 inch page of notes (both sides) for the midterm, and two 8.5x11 inch pages of notes for the final (so neither the midterm nor the final are open book exams).

You must take both exams as scheduled. Otherwise, with the following exception, your grade for the exam will be zero. In case of a foreseeable conflict and in order to take the exam (written or oral) at a different time, you must make a request in writing or by email at least one week prior to the exam, and obtain my written or email permission prior to the exam.

Honor Code
All students must comply with University policies for conduct and academic honesty at all times during this course. These policies are outlined in the Notre Dame Academic Code of Honor Handbook at www.nd.edu/~hnrcode. Any violations of these policies will result in referral to the appropriate administrative body. Exams are expected to be completed according to the specified conditions, without the assistance of others. Giving or receiving help of any kind on an exam is a violation of the Honor Code.