

**The Hong Kong University of Science and Technology**  
Department of Finance

**FIXED INCOME SECURITIES**  
Code course FINA361: Fall 2009

**Venue:** L1 1151, Mon and Wed 10.30-11.50

**Instructor:** Dr. Entela Benz

**Office hours :** Mon and Wed 10-10.30 and by appointment.

**Course Objective:** The course covers fixed income markets. First part of the course starts with a broad coverage of bond markets and basic analytical tools, providing a key understanding to interest rate risk measures and yield curves. Second part covers the main types of bond market, then focuses on Asia local bond markets and its characteristics. Building on the previous subjects, part three analyses the main financial instruments such as swaps, interest rate options and futures, credit derivatives etc.

The course gives a great emphasis on how the theory relates to practice. Therefore understanding the current crisis and the possible repercussions on the structure of the financial market and its instrument is very important to this end.

By the end of this course, students should be able not only to understand the fixed income market, the impact of the financial crisis, the financial instruments and the market practitioners terminology, but take a view on the market and develop the right trading/hedging strategy.

**Target audience:** The course aims at student wishing to pursue further studies in fixed income market or those wishing to work for finance services industry with special focus on fixed income.

**Textbook and useful websites:**

Required Textbook: Bond Markets, Analysis And Strategies, 2006, by F. Fabozzi, published by Prentice Hall

Websites:

Academic papers on Social Science Research Network: <http://www.ssrn.com/>

Very useful papers and research on Bank for International Settlements: [www.bis.org](http://www.bis.org)

For data and market overview check Asia Bond Monitor: <http://asianbondsonline.adb.org/>

Additional Notes: My notes and other material to be distributed as to illustrate the how practitioners look and use the information for their own strategies.

As you will notice in the required readings my notes are very important. This is because I will try to teach this course from the practitioner's point of view, that is it simplify the theory and make it applicable to the reality.

**Course Outline:**

- ✚ Part 1: **Basic Analytical Tools**
  - Introduction to FI Market (chapter 1)
  - Interest Rates on deposit and Discount Securities (my notes)
  - Pricing of Bonds (chapter 2)

- Bond Risk Measures (chapter 3, 4 & my notes)
- Forward Rates and Term Structure Theories (chapter 5)
- Floating Rate Notes (chapter 2 & 22)
- ✚ Part 2: **Types of Bond Market**
  - Government Bonds (chapter 6 & my notes)
  - Corporate Bonds (chapter 7 & my notes)
  - Asian Bond Market (my notes)
- ✚ Part 3: **Fixed Income Derivatives**
  - Interest Rate Futures (chapter 23 & my notes)
  - Interest Rate Swaps (chapter 25 & my notes)
  - Interest Rate Options (chapter 24 & my notes)
  - Credit Derivatives (chapter 26 & my notes)
  - Active Portfolio Strategies (chapter 19 & my notes)

**Assesment:**

The student grade for this course will be based on two exams and on home assignments with respective weights:

Mid-term Exam: 40%

Final Exam: 40%

Home assignments: 20%

The homework will be a mixture of exercises from the end of each chapter of the required textbook and stand alone cases. The final exam will not cover the material given before the mid-term exam. The calculator and one sheet of formulas are allowed during the exam. Cheating and other forms of academic dishonesty will not be tolerated in this course.