

EC177: Fixed Income Securities

Spring 2007

Monday 3-5:20pm

Rhode Island Hall 201

Professor Lily Qiu

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Office Hours: T 2:30pm-4:30pm

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Conference: T 12 – 12:50pm, Wilson Hall 105

T 7 – 7:50pm, Smith-Buonanno G12

Office Hours: TBA

Class Webpage: <http://www.econ.brown.edu/fac/Lily%5FQiu/EC177.html>

Course Description

The U.S. fixed income market has more than \$23 trillion debt outstanding in 2004. Many corporations use fixed income derivatives to hedge interest rate risk. This class intends to introduce not only the institutional knowledge on the fixed income market, but also the analytical skills required for investments in bonds and their derivatives. Topics covered in this course include basic fixed income securities, term structure, hedging interest rate risk, investment strategies, fixed income derivatives, mortgage-backed securities and asset-backed securities. Prerequisites: EC171.

The required textbook is “*Bond Markets, Analysis, and Strategies*” by Frank Fabozzi, 5nd edition.

The following books are recommended if you are interested in reading more on fixed income:

Asset Pricing, by John Cochrane, published by Princeton Press

Fixed Income Securities, by F. Fabozzi, published by John Wiley & Sons

Fixed-income Securities: Valuation, Risk Management and Portfolio Strategies, by L. Martellini, P. Priaulet, and S. Priaulet, published by John Wiley & Sons

There will be two midterms and one final exam. The midterms are on Monday, February 26th and Monday April 2th. The final will be scheduled by the registrar’s office. There is no make-up exam for the midterms. Any missed midterm receives a zero automatically, unless I receive a dean’s notice two weeks in advance.

Grading

Midterm 1:	20%
Midterm 2:	20%
Final:	30%
Problem sets:	10%
Presentation:	20%

Tentative Course Schedule

- 1/29: Course introduction, Overview of the Bond Markets
- 2/5: Bond Valuation and Bond Price Volatility
- 2/12: Term Structure of Interest Rates
- 2/26: Midterm
- 3/5: Hedging interest-rate risk
- 3/12: Investment Strategies
- 3/19: presentations
- 4/2: Midterm
- 4/9: Option pricing theory and Plain Vanilla Options
- 4/16: Swaps and Futures
- 4/23: More Exotic Derivatives