

UNIVERSITY OF MICHIGAN BUSINESS SCHOOL

FINANCE 609 FIXED INCOME SECURITIES AND MARKETS

Syllabus: Fall 2004

INSTRUCTOR: Robert Dittmar
OFFICE: D7203
OFFICE HOURS: 4:00-5:00 MW
PHONE: (734) 763-6821
E-MAIL: rdittmar@umich.edu
WEB: webuser.bus.umich.edu/rdittmar

COURSE MATERIALS:

Required: *Fixed Income Markets and their Derivatives*, by Suresh Sundaresan

Recommended: Class notes at <https://ctools.umich.edu/portal>

COURSE DESCRIPTION:

This course focuses on the pricing of fixed income securities and the management of these securities in portfolios. International fixed income markets are the source of the majority of the world's financing needs; in the United States alone, the market capitalization of the fixed income markets is approximately three times that of the equity markets. Derivatives on these securities represent a notional value of over \$100 trillion.

In this course, we will use well-established techniques to value fixed income securities of various types. In particular, securitization has become an important feature of the fixed income markets through the growth of mortgage-backed securities. We will also learn how traders implement fixed-income trading strategies and how managers alleviate the risks inherent in managing a fixed income portfolio.

COURSE ADMINISTRATION, POLICY, AND PEDAGOGY

The specific grading policy follows:

Homework	40%
Final Exam (Take Home)	50%
Attendance and Participation	10%

The final grade will be assigned according to the policy of the business school:

Low Pass	<=5%
Pass	<=25%
Good	<=40%
Excellent	<=35%

I will adhere strictly to this policy by ranking students based on their scores and applying the above percentile cutoffs to the ranking. I will attempt to provide you feedback after each assignment so that you know your standing.

COURSE OUTLINE:

Module	I (11/1)
Topic	An Overview of Fixed-Income Securities <i>A brief survey of the fixed-income markets</i> <i>Bond Risks</i> <i>Pricing Frameworks</i>
Readings	Chapter 1
Assignments	None

Module	II (11/3, 11/8)
Topic	Bond Mathematics <i>Computing and interpreting yields</i> <i>Duration</i> <i>Convexity</i>
Readings	Chapter 4
Assignments	Assignment 1, Due 11/12 5:00 p.m.

Modules	III (11/10, 11/15, 11/17)
Topic	The Yield Curve <i>Business cycles</i> <i>Macroeconomic predictability</i> <i>Yield curve</i> <i>Term structure</i> <i>Forward rates</i>
Readings	Chapters 5, 6
Assignments	Assignment 2, Due 11/22 5:00 p.m.

Modules	IV (11/22, 11/29, 12/1)
Topic	Inflation-Indexed, Corporate, Emerging, and Securitized Debt <i>Inflation-indexed securities</i> <i>Corporate debt</i> <i>Securitized and mortgage-backed securities</i> <i>Emerging debt</i>
Readings	Chapters 7, 8, 9, and 11
Assignments	Assignment 3, Due 12/6 5:00 p.m.

Modules	V (12/6, 12/8, 12/13)
Topic	Portfolio Management <i>Funding matching</i> <i>Horizon matching</i> <i>Indexization</i>
Readings	Chapter 12
Assignments	Assignment 4, Due 12/15 5:00 p.m.