Fixed Income Securities
Syllabus
Department of Accountancy
National Cheng Kung University
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Purpose:
“Fixed-income securities” is a term for broader definition of bonds. Fixed-income securities include all types of financial assets such as bonds, convertible bonds, mortgage-backed securities, collateralized debt obligations, floaters, and the derivatives whose payoffs depend on these securities. Modern financial managers and investors are getting more subject to the risks associated with fixed-income securities: interest rate risk, credit risk, liquidity risk, etc, in the dynamic integrated global financial markets. Knowledge of traditional investment tools such as time deposits, stocks, and mutual funds is not enough in such an environment. The subprime mortgage crisis in 2007 causes CEOs of investment banks to step down. Dow Jones Industrial Average has plummeted by more than 20% since then. On September 15, 2008, the fourth largest investment bank in the U.S., Lehman Brothers, filed for Chapter 11 bankruptcy in Manhattan Court in New York. DJIA fell by 4.42% on the single day.

The purpose of this course is to provide students the basic ideas in fixed-income securities. Other than understanding the fixed-income securities, three functions are to be emphasized: pricing, risk management and portfolio management. However, materials covered are only introductory, and students who are interested in these areas should read more related articles in academic journals or professional magazines.

Required textbook:

Course outline:
Introduction
Interpreting bond yields
Dollar duration
Convexity
Bond yields and term structure of interest rates
Treasury and agency securities markets
Corporate debt instruments
Non-U.S. bonds
Mid-term exam
Residential mortgage loans
Mortgage pass-through securities
Commercial mortgage-backed securities
Collateralized mortgage obligations
Collateralized debt obligations
Analysis of bonds with embedded options
Forward contracts and futures
Interest rate swaps and agreements
Final Exam

Grade: Mid-term 45%
Final 45%
Participation 10%