

This class will discuss the pricing theories, investing concepts and institutions of bonds and related interest-rate instruments. We will discuss a broad range of financial instruments including corporate debt, municipal debt, CDO's, and interest rate derivatives (options, futures, swaps, etc.) We will also discuss bond portfolio management and related issues such as immunization

An entire semester discussing and valuing bonds might seem like overkill, especially when one considers how little attention the financial press pays to the bond market. Investing, portfolios and brokers usually make people think of stocks not bonds. But the fundamentals of investing and valuation are most clearly seen and best understood with bonds. A mastery of fixed income investment techniques will prepare you for tackling most investment problems.

Textbook and Grade Information

The textbook for this class is Bond Markets, Analysis and Strategies by Frank Fabozzi, seventh edition. Readings for each topic are on the back of this syllabus. No textbook is a substitute for attending class, however, and you are ultimately responsible for the material that is presented in class. Much of the material that is covered in this course can be seen in action in publications such as the Wall Street Journal and on the Internet. I recommend that you keep abreast of the financial news by reading a finance news source every day.

There will be several homework assignments, a midterm and a final exam. Your course grade will be determined as follows:

20% Homework
35% Midterm
45% Final Exam

Contact Information

My office is Burkle 218 and my phone number is (909) 607-2576. The closest fax machine is at (909) 621-8543. My e-mail address is jay.prag@cgu.edu. My office hours are Wednesday, 3:30PM – 4:00PM and after class as needed. I am available by appointment as well.

READINGS

Chapters

Week 1

Introduction, Bond Pricing

1-3

| | | | |
|---------|---|-------|-------|
| Week 2 | Term Structure, Interest Rate Risk, Duration, Immunization | 4, 5 | |
| Week 3 | The Bond World, Bond Ratings, Bankruptcy, Bond Covenants | | 6-9 |
| Week 4 | Mortgages and Mortgage Backed Securities | 10-13 | |
| Week 5 | Asset Backed Securities and CDO's | | 14-15 |
| Week 6 | Embedded Options, Valuing Convertibility | 16-18 | |
| Week 7 | Midterm | | |
| Week 8 | Bond Portfolio Management, Indexing | | 19-21 |
| Week 9 | Bond Performance | | 22 |
| Week 10 | Interest Rate Options and Futures | | 23-24 |
| Week 11 | Interest Rate Swaps, Caps and Floors | 25 | |
| Week 12 | Exotic Credit Derivatives | | 26 |
| Week 13 | To Be Announced | | |
| Week 14 | Final Exam | | |

Other readings may be suggested or provided during the semester.

If you find an interesting reading on any of these topics please show it to me and I will share it with the entire class. I will also be using online resources whenever possible and I am always interested in good finance-related websites so let me know if you have a favorite website that is different from the ones I show to the class.