

FIN4243, DEBT & MONEY MARKETS

Fall 2017

Instructor: Junho Oh

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Office Hours: Mondays and Wednesdays 4-5 PM or by appointment

Office: STZ 303B

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Class Schedule: Mondays and Wednesdays, periods 7-8 (1:55 p.m. to 3:50 p.m.)

Class Room: HVNR 240

Textbook: “Bond Markets, Analysis, and Strategies” *Ninth Edition*, by Frank Fabozzi

Course Credit: 4

Section: 2107

Course Description

Recently, debt and money markets play an important role in finance. The securities in debt and money markets are fixed income securities, and they covers Treasury Bills (T-Bills), Certificate of Deposit (CD), Commercial paper, Banker’s Acceptance, Eurodollars, etc. The most important function of debt and money markets is providing a firm with a channel of raising additional funds, and using excessive cash to obtain coupon rate.

This course describes debt and money markets, and develop methods for valuing fixed income securities. The course covers wide range of bonds, including traditional bond, bond with embedded optionality such as callable bonds, mortgage-backed securities, and swaps. The course introduces duration and convexity, which are an important risk management topic in the context of immunization. Moreover, the course also explains the concept of term structure and the applications using curve strategies.

Learning Objectives

Student will be able to:

1. Calculate price of bond, yield, and rate of return.
2. Describe duration and convexity and apply them to bond immunization.
3. Explain the concept of term structure and link it to calculate price of a bond.
4. Use curve strategies to identify misvaluations and analyze trades.
5. Illustrate Mortgage-backed securities and compute mortgage payments.
6. Understand several types of swaps such as interest rate swaps and credit default swaps.

Pre-requisite

This course focuses on concepts associated with the time value of money. In order to calculate the value of fixed income securities, students should have a basic mathematical background and financial knowledge. Students should be also comfortable with managing excel spreadsheet for assignments.

Materials

The required textbook for this course is “Bond Markets, Analysis and Strategies,” *Ninth Edition* by Frank J. Fabozzi. Reading chapters are indicated at the end of lecture slides. Lecture slides, problem sets, and solutions are posted on the class webpage. **A financial calculator is required.**

Other Helpful Resources

Regarding technical issues with e-learning system, please contact Learning-support@ufl.edu or <https://kb.helpdesk.ufl.edu/FAQs/E-Learning>.

Assignments (Problem Sets)

Five problem sets will be assigned to students. The problem sets will be posted in the course website. The problem sets will be graded so that students should elaborate how to derive their solutions. Students can upload their solution by typing it via Microsoft Word, Excel, or scanning their own hand-writing. Due date of a problem set is one week after the problem set is posted. I will accept late submission, but I will subtract 20% from the full points for each day.

Exams

The details on exam will be announced during the class before the exam date. The final exam will focus on the topics after the mid-term, but students are required to understand the concepts and the computation methods that they have learned before the mid-term. A make-up exam is not allowed without any appropriate reason (such as a disease, an injury, and the conflict with other exam schedules). The schedule of the make-up exam will be arranged during the class.

Attendance

Students will be required to attend the class. The attendance will be recorded by calling students' name or checking in-class problem solving sheets. The in-class problem solving sheets will not be graded and serves only as checking attendance. Students can absent maximum 5 classes without any adverse effect. If there is any reason to miss the class more than 5 times, students must let me know the reason via e-mail. Since late arrivals disturb the class, students are expected to arrive at the classroom on time. All the missing information due to absence without any notice is all your responsibility.

Course Grading

Attendance—10%

Assignments—20%

Midterm Exam—30%

Final exam—40%

Grading scales are as follows (rounding X to two decimal places):

Grade	Percentage (X)
A	$X \geq 93$
A-	$90 \leq X < 93$
B+	$87 \leq X < 90$
B	$83 \leq X < 87$
B-	$80 \leq X < 83$
C+	$77 \leq X < 80$
C	$73 \leq X < 77$
C-	$70 \leq X < 73$
D+	$67 \leq X < 70$
D	$63 \leq X < 67$
D-	$60 \leq X < 63$
F	$X < 60$

My objective is a B average in this class. If the average is below B, I will boost grades with a curve after the final exam. I will not reduce grades with a curve even if they are higher than a B average (In other words, I will take a maximum of those two methods for your grades).

Information on current grading policy of University of Florida is shown in the following link:
<https://catalog.ufl.edu/ugrad/current/regulations/info/grades.aspx>.

Re-grading Policy

Students have an opportunity to claim the grading on their exam. The request for re-grading must be submitted in form of a Microsoft Word document. Other forms such as hand-writing is not permitted. All the request are allowed within the 1 week following the date when the result of exam is posted.

Academic Honesty

In adopting this Honor Code, the students of the University of Florida recognize that academic honesty and integrity are fundamental values of the University community. Students who enroll at the University commit to holding themselves and their peers to the high standard of honor required by the Honor Code. Any individual who becomes aware of a violation of the Honor Code is bound by honor to take corrective action. Student and faculty support are crucial to the success of the Honor Code. The quality of a University

of Florida education is dependent upon the community acceptance and enforcement of the Honor Code. For further information, please visit <https://www.dso.ufl.edu/sccr/process/student-conduct-honor-code>.

Accommodations for Students with Disabilities

Students requesting classroom accommodation must first register with the Dean of Students Office. The Dean of Students Office will provide documentation to the student who must then provide this documentation to the instructor when requesting accommodation. For further information, visit <http://www.dso.ufl.edu/drc>.

Gator Wellness

Students' well-being is important to me and to the University of Florida. Please contact the Counseling and Wellness Center (<https://www.counseling.ufl.edu/cwc/Default.aspx>, 352-392-1575) if you or your friends are in distress. If you are threatened, please contact the University Police Department (392-1111). In case of emergency, call 9-1-1.

Tentative Course Schedule

Due date of a problem set is one week after the problem set is posted.

Date	Content	Chapter(s)
Monday, August 21	Class Intro & Debt Market Overview	1
Wednesday, August 23	Bond Pricing, Yield, and Rate of Return	2,3,6
Monday, August 28	Bond Pricing, Yield, and Rate of Return	2,3,6
Wednesday, August 30	Bond Pricing, Yield, and Rate of Return Problem Set 1 (Post)	2,3,6
Monday, September 4	No class: Holiday	
Wednesday, September 6	Duration, Convexity, and their Applications	4,27
Monday, September 11	Duration, Convexity, and their Applications	4,27
Wednesday, September 13	Duration, Convexity, and their Applications	4,27
Monday, September 18	Duration, Convexity, and their Applications Problem Set 2 (Post)	4,27
Wednesday, September 20	Term Structure	5
Monday, September 25	Term Structure	5
Wednesday, September 27	Term Structure	5
Monday, October 2	Term Structure Problem Set 3 (Post)	5
Wednesday, October 4	Mid-term Review	1,2,3,4,5,6,27
Monday, October 9	Mid-Term Exam	1,2,3,4,5,6,27
Wednesday, October 11	Curve Strategies	24
Monday, October 16	Curve Strategies	24
Wednesday, October 18	Curve Strategies	24
Monday, October 23	Callable Bonds	7,18
Wednesday, October 25	Callable Bonds	7,18
Monday, October 30	Callable Bonds Problem Set 4 (Post)	7,18
Wednesday, November 1	Mortgage-Backed Securities	10,11,13,14

Monday, November 6	Mortgage-Backed Securities	10,11,13,14
Wednesday, November 8	Mortgage-Backed Securities	10,11,13,14
Monday, November 13	Mortgage-Backed Securities	10,11,13,14
Wednesday, November 15	Swaps	31,32
Monday, November 20	No class: Thanksgiving	
Wednesday, November 22	No class: Holiday	
Monday, November 27	Swaps Problem Set 5 (Post)	31,32
Wednesday, November 29	Swaps	31,32
Monday, December 4	Final Review	7,10,11,13,14,18,24,31,32
Wednesday, December 6	Final Exam	7,10,11,13,14,18,24,31,32