

**FIXED INCOME SECURITY VALUATION
FINANCE 6545**

**Warrington College of Business
University of Florida**

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Class:	Monday and Wednesday	9:35 – 11:30 AM	STZ 103
Office Hours:	Monday and Wednesday	8:30 – 9:30 AM	STZ 303G

Course Coverage and Expectations.

Topical Coverage

This course covers the valuation of fixed income securities. The course begins with a treatment of basic bond math and term structure theory concepts. The initial material provides the student with a strong background in the valuation of “plain vanilla” bonds. The remainder of the course considers the effects of attached options and default risk on the valuation of bonds.

Expectations

Students are expected to have (1) read the assigned readings and lecture notes and (2) attempted the pre-class problem at the beginning of each PowerPoint presentation prior to class.

If you have trouble understanding any material, it is your responsibility to ask questions in class or seek outside help from me.

Readings.

The required text for course is Bond Markets, Analysis and Strategies Sixth Edition by Frank J. Fabozzi. I have had a custom book prepared for this class that uses only chapters needed for this course in order to save costs. Supplemental readings, the lecture notes and the assignments are posted on the class web page. Interested students might find Fixed Income Markets and Their Derivatives, by Suresh Sundaresan and published by Southwestern, a good resource.

Grading.

Your course grade will depend on your score on four assignments and a final exam detailed below. All five graded exercises are individual work. *It is a violation of the University of Florida Honor Code to consult other students on these assignments.*

Assignment One 20% of course grade
Due on 9/6

Assignment Two 20% of course grade
Due on 9/18

Assignment Three 20% of course grade
Due on 9/27

Midterm Exam 20% of course grade
9/13

Final Exam 20% of course grade
10/9

Course Outline

8/21/17 - Basic Bond Calculations

Lecture Presentation(s)	Technical Note(s)	Other Readings
Bonds and Interest Rates	Return Calculations	Fabozzi: Introduction
Expected Returns and Yields	Interest Rate Basics	Fabozzi: Pricing of Bonds
	Yields and Prices	Fabozzi: Measuring Yield
	Zero Coupon Bonds as Building Blocks: Pricing Securities	
	Zero Coupon Bonds as Building Blocks: Expected Returns and Yields	
	Excel Models for Fixed Income	

8/23/17 – Relative Value Trades and Stripped Spreads

Lecture Presentation(s)	Technical Note(s)	Other Readings
Relative Value Investing	Relative Value Investing	Fabozzi: Factors Affecting Bond Yields and the Term Structure of Interest Rate
Stripped Spread	Stripped Spread	

8/28/17 – Maturity and Curve Strategies

Lecture Presentation(s)	Technical Note(s)	Other Readings
Forward Rates and Maturity Selection	Forward Rates and Maturity Selection	
Forward Rates and Curve Strategies	Forward Rates and Curve Strategies	
	Forward Rate Basics	

8/30/17 – Term Structure of Interest Rates

Lecture Presentation(s)	Technical Note(s)	Other Readings
Term Structure	Term Structure	Fabozzi: Factors Affecting Bond Yields and the Term Structure of Interest Rate
Term Premiums	Term Premiums	

9/6/17 – Yield Curve Dynamics

Lecture Presentation	Technical Note(s)	Other Readings
Yield Curve Dynamics	Yield Curve Dynamics	
	Yield Curve Dynamics Model	

9/11/17 – Duration and Convexity

Lecture Presentation	Technical Note(s)	Other Readings
Duration and Convexity	Duration	Fabozzi: Bond Price Volatility
	Convexity	
	Duration Applications	

9/13/17 – Midterm Exam

9/18/17- Advanced Trade Hedging Strategies

Lecture Presentation	Technical Note(s)	Other Readings
Advanced Trade Hedging Strategies	Advanced Trade Hedging Strategies	

9/20/17 – Callable Bonds

Lecture Presentation	Technical Note(s)	Other Readings
Callable Bonds	Callable Bonds	Fabozzi: Analysis of Bonds with Embedded Options
	Effective Duration	

9/25/17 – MBS Mechanics and Valuation

Lecture Presentation	Technical Note(s)	Other Readings
MBS Valuation and Mechanics	MBS Valuation and Mechanics	Fabozzi: Analysis of Residential Mortgage-Backed Securities
		Fabozzi: Agency Mortgage Pass-Through Securities
		Fabozzi: CMOs and Stripped MBS

9/27/17 – Credit Risk Valuation

Lecture Presentation	Technical Note(s)	Other Readings
Credit Risk Valuation	Credit Risk Valuation	

10/2/17 – Credit Default Swaps

Lecture Presentation	Technical Note(s)	Other Readings
Credit Default Swaps		

10/4/17 – Credit Fundamentals

Lecture Presentation	Technical Note(s)	Other Readings
Credit Risk Fundamentals Default Risk Likelihood		

10/9/17 – Final Exam