M. SF. Required Course: Financial Securities and Innovation

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The last forty years has seen an explosion in the different types of financial instruments used in equity, foreign exchange, commodity and fixed income markets. These financial innovations have had a tremendous impact on the world economy. Credit default swaps provide a mechanism for investors to transfer the risk of default to other investors in the economy. For example, you could be a manufacture producing car parts. You are concerned that your main customer might default. If default occurs then, you may incur losses on any bills outstanding and future revenues may be affected. A credit default swap provides a way to partially hedge this type of risk. Securitization started in the mid 1980s and provides a mechanism for financial institutions to transfer assets off their balance sheet, releasing capital. Typical examples of the assets used in securitization are credit cards, auto loans and leases, commercial property leases and mortgages.

The ability to analyze new securities is critical for high-performing finance professionals in areas as diverse as investment banking, security analysis, risk management, and corporate finance. The aim of this course is therefore to develop a framework for analyzing new types of securities. We will focus on some new instruments in debt markets, which has been one of the main arenas for financial innovations. We will study the benefits and risks of these securities, and study the most widely used approaches for their pricing. The basic concepts that underlie many of these innovations are not unique to credit markets.