Introductory Course Fixed Income

FINA 7321

If you are working in corporate finance, real estate management, fund management (money market funds, pension funds), you will require a knowledge of bond markets. What types of instruments exist and what propose do they serve? The term fixed income refers to the study of bond markets. At the end of this course you will know the different types of government bonds that are commonly used, including Treasury strips. You will have an understanding of such concepts as yield to maturity, zero coupon yields and par yields. You will understand what a fund manager means when she states that she wants to reduce the duration of her portfolio. You will appreciate why interest rate swaps and repurchase agreements perform useful economic functions.

This introductory course is designed to provide a basic grounding in the language and concepts of fixed income securities. The initial focus is on default-free government bonds that serve as the building blocks of more complicated corporate and derivative securities. We explain how default free instruments are priced in an efficient market and describe different techniques that can be used for hedging bond portfolios. This introduces the concepts of duration and convexity. We will discuss repurchase agreements (Repos), which are a mechanism for financial institutions to borrow/lend. We show how they can be used for shorting bonds. The majority of new corporate debt is issued with fixed coupon payments. However, many corporations would prefer to make payments based on a floating rate instead of a fixed rate, as this reduces the volatility of their cash flows. Interest rate swaps were designed to help corporations swap one form of cash flows for another type of cash flows.