Course Objectives

Through this class I want to help you build the following skills:

- Analytical ability: modeling skills that are important in making investment decisions,
- Quantitative skills: developing problem solving skills, data analysis, probability evaluation of uncertain events.
- Empirical knowledge of the financial markets: equity, fixed income (default-free and defaultable) and their respective derivatives.

The Term-Structure of Interest Rates (Yield-Curve)

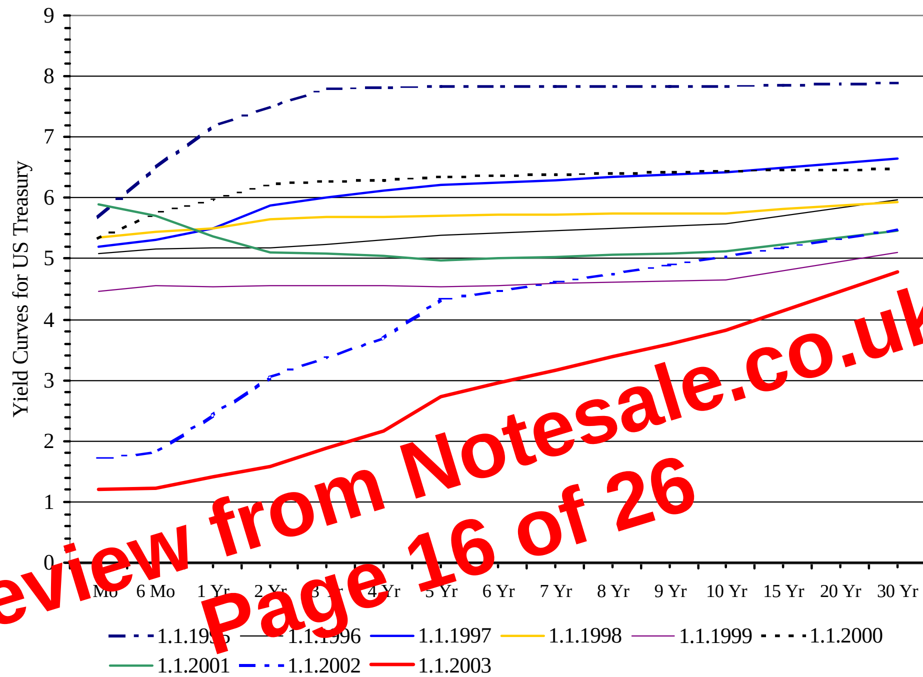

Figure 6: Treasury Yield Curve, Source: Bloomberg Professional.

How do we describe the term-structure:

- Shift
- Twist
- Butterfly

Securitization

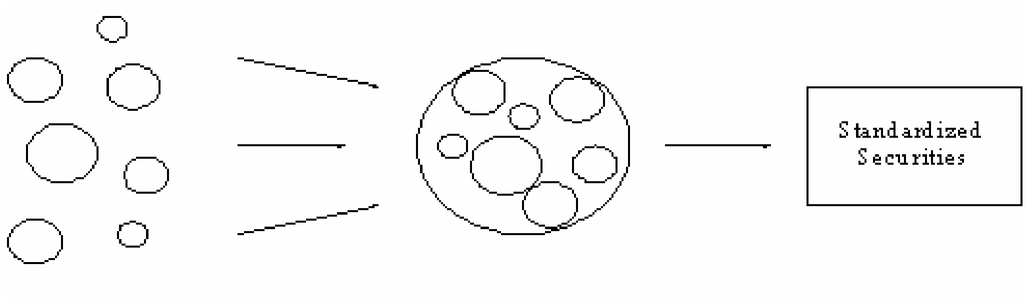

Figure 9: Securitization of "stand-alone" mortgages in liquid standardized mortgage-backed securities.

Securitization of the mortgage market: The national mortgage market and mortgage-backed securities transform the residential house finance from fragmented, local-based sources to a free-flowing, international base of capital with depth and usually a higher credit rating.

Other examples: collateralized debt (loan or bond) obligations, asset backed debt, etc.

- p.48-54 (know the most important market indexes, what kind of different weighting-schema exist etc.);

Reader: Sharpe (1995);

Type of potential questions: p. 60ff. questions 1, 5, 11, 17, 23
