

**UNIVERSITY OF TEXAS AT AUSTIN**  
**McCombs School of Business**  
**Department of Finance**

Finance 297, Topic 5, Unique #03540  
Fixed Income Analysis

Dr. Ehud I. Ronn  
Spring 2015

Class Hours: MW, 10 a.m. – 12 noon, GSB 2.120

Contact Info: CBA 6.270, [eronn@mail.utexas.edu](mailto:eronn@mail.utexas.edu), 471-5853

Office Hours:

1. MW, 5 – 6 p.m. I hold office hours as an open meeting for all interested to pose questions regarding the presented materials, and past and concurrent problem sets.
2. When there are several students wishing to pose questions — such as prior to submission deadlines for problem sets, or the Final Exam — we will revert to the more spacious Finance Dept. Conference Room.
3. This session will not take place on days I have out-of-town commitments.
4. For personal issues, including post-MSF employment opportunities, please e-mail for an appointment.

Teaching Assistant: Zack Liu  
[Zack.Liu@phd.mcombs.utexas.edu](mailto:Zack.Liu@phd.mcombs.utexas.edu)  
GSB 1.312D, TTh. 3 – 4 p.m. and by appointment

The TA's roles include:

1. Response to students' clarifying questions regarding problem sets
2. Updating students who have missed classes

Newspapers: Student rates available for *Wall Street Journal*

Textbook: **Fixed Income Markets and Their Derivatives**, Suresh M. Sundaresan, Academic Press, 2009.

Grading: The Final Grade in the course will be determined by the relation:

$$\text{Final Grade} = 0.7 \times \text{Final Exam} + 0.3 \times \text{Problem Sets}$$

Class participation, especially helpful at the margins, will also be taken into consideration in the determination of the final grade:

1. Students' display of their name cards throughout the semester is requested.
2. When posing questions in class, students assist not only their own comprehension, but perform a social role of assisting those of their peers who may have hesitated in posing these questions.
3. Consequently, class participation will be recognized, and can only *increase* (and never reduce) students' grades.
4. Student tardiness in arriving to class will offset the beneficial impact of class participation.

Based on past pattern, the distribution of grades will likely be 40% "A / A-", 50% "B+ / B", 10% "B-, C+, C". The class GPA will be consistent with McCombs Business School guidelines.

Problem Sets:

1. Approximately 15 problem sets will be disseminated and assigned throughout the semester.
2. These questions are designed to:
  - (a) Provide students with problem-solving experience
  - (b) Constitute mini-case studies
  - (c) Enhance understanding of markets, financial instruments, and financial risk management

3. As befits a professional school, students' responses to these problem sets should be neatly typed, clear and complete. Handwritten solutions will not be evaluated.
4. Students may submit the responses to problem sets in groups of up to four students.
5. Problem sets will be graded and returned to the students. If a graded problem set is not retrieved by the student (or on his/her behalf) when returned, the student may retrieve the problem set from the Teaching Assistant during the latter's office hours.
6. Problem set grades will be confidentially reported in Canvas ([canvas.utexas.edu](https://canvas.utexas.edu)). This will permit students to confirm they have received credit for submitted problem sets.
7. Solutions to problem sets will be disseminated to the students as well as reviewed in class.

#### Copies of Handouts:

1. Most classes will begin with a handout covering administrative issues, occasional issues of topical interest, and problem set questions and solutions to previous problem sets.
2. Subsequent to each class session, handouts will be uploaded on Canvas ([canvas.utexas.edu](https://canvas.utexas.edu), "Files") for student retrieval.
3. I request these documents not be shared, electronically or in paper form, with anyone outside the class.

#### Lecture Packet:

1. The Finance 297, Topic 5 Lecture Packet, constitutes a set of notes which includes the totality of material to be covered in the course, and students are encouraged to purchase the packet.

2. The FIN 297.5 Lecture Packet is not designed to be a *book*, but rather a detailed set of lecture notes requiring in-class attendance and active participation to be fully useful.
3. With a cover in *lunar blue*, the Packet will be available at University Duplicating Service, GSB 3.136.

### Final Exam:

1. The Final Exam will be held during our 10 a.m. – 12 noon class session Wed. March 11th.
2. A list of review topics and sample questions will be distributed prior to the end of the semester. The review topics will briefly summarize the concepts introduced throughout the course.
3. The questions on the Final Exam will resemble those of the Problem Sets, and will include material on visitors' in-class presentations.
4. A copy of the 2014 Final Exam and its Solution key may be found towards the end of this Lecture Packet.

### Class Presentations from Industry:

I will confirm in advance participation of guest lecturers from industry.

### Class Protocols:

1. Class begins promptly at 10 a.m., and tardiness is not tolerated
2. Display of name cards is appreciated
3. Laptop use for class purposes is permissible, but other use will be curtailed
4. A conduct of professionalism is expected:
  - (a) Disable phones and wireless devices. Please advise me of any critical need to communicate or anticipated early departure

- (b) Uphold University Honor Code: Work on Midterm and Final Exams is *individual*; problem-set work may be communicated within the group but not outside the group
5. In order to assist qualified students, students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, (512) 471-6259, <http://www.utexas.edu/diversity/ddce/ssd/>.

### Course Outline:

The objectives of this course are to introduce students to the role of fixed income securities in the U. S. economy, and to methods of economic and financial analysis relevant to these markets:

1. Understanding the fundamentals of bond valuation
2. Understanding the bond-investment selection process; identifying undervalued and overvalued bonds; incorporating interest-rate forecasts into the bond-selection process
3. Hedging interest rate exposure
4. Understanding the principles of interest rate-derivative claim valuation, hedging and uses
5. Understanding the design, valuation and uses of CPI-linked securities

This course in Fixed Income Valuation is quantitative in nature and will focus on methods of financial analysis appropriate to U. S. financial markets and institutions.

Whereas the course is self-contained and all concepts will be defined in class, familiarity with analytical techniques in Finance will prove useful. Moreover, the course makes use of options and futures contracts — and thus a familiarity with methods of analysis applicable to these instruments will also prove useful in the course.