

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

Finance 397, Topic 5, Unique #03920
Fixed Income Analysis

Dr. Ehud I. Ronn
Spring 2015

Class Hours: MW, 3:30 – 5 p.m., UTC 1.130

Contact Info: CBA 6.270, 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. This session will not take place on days I have out-of-town commitments.
3. For personal issues, including post-MBA employment opportunities, please e-mail for an appointment.

Teaching Assistant: Crystal (Hyunjung) Lee
hyunjung.lee@utexas.edu
Hours TBA

The TA's roles include:

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

Course Prerequisites: BA 385T, FIN 394.1, FIN 397.1

In this regard, for those students lacking prerequisites:

1. I am not a stickler for prerequisites.
2. Students lacking prerequisites will be given no special treatment relative to students who have satisfied the prerequisites for my course.

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:

$$\text{Final Grade} = 0.5 \times \text{Final Exam} + 0.3 \times \text{Midterm Exam} + 0.2 \times \text{Problem Sets}$$

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 three 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). 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, "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 397, 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 397.5 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 *solar yellow*, the Packet will be available at University Duplicating Service, GSB 3.136.

Midterm Exam:

1. The Midterm Exam will be held in class on March 1st.
2. The questions for the Midterm will be patterned after the questions contained in the problem sets (those requiring no more than a reasonable amount of data manipulation). Thus, students will be able to familiarize themselves with the format and types of questions to be encountered in the Midterm.
3. Prior to the Midterm, a list of review topics, containing concepts introduced in the first half of the semester will be disseminated in the class.
4. Material presented by in-class visitors from industry and/or academia may be included in the Midterm.
5. A copy of the 2015 Midterm Exam and its Solution may be found towards the end of this class' Lecture Packet.

Midterm Teaching Evaluation:

Subsequent to the Midterm, I will conduct an anonymous midterm teaching evaluation.

Final Exam:

1. The Final Exam will be held in accordance with the Final Exam Schedule. The Spring 2015 Course Schedule appears to indicate the official Final Exam date is Fri. May 12, 7 – 10 p.m.
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. As was the case for the Midterm Exam, 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 2015 Final Exam and its Solution key may be found towards the end of this class' Lecture Packet.

Class Auditors:

Per the Registrar Office's <http://www.utexas.edu/student/registrar/catalogs/gi01-02/ch3/ch3a.html>,

“A University student who wishes to audit a course should obtain a Class Auditor Permit from the Office of the Registrar and secure the consent of the course instructor and his or her dean. A nonstudent must obtain the Class Auditor Permit and the consent of the instructor. An audit fee of \$20 a course is assessed nonstudents under the age of sixty-five.”

Class Presentations from Industry:

Here is the current lineup for Industry/External Academic Presentations:

Company/University	Visitor(s)	Date
Southwest Airlines	Chris Monroe	Feb. 15
JP Morgan	Pavan Wadhwa	April 5
Kosmos Energy	Thomas P. Chambers	TBA
NISA	William Marshall	TBA
Prudential	Robin Brenner	TBA
Bloomberg	TBA	TBA

Class Protocols:

1. Class begins promptly at 3:30 p.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 design, valuation and uses of: Bullet bonds; Callable and puttable bonds; Make-whole bonds; CPI-linked securities
3. Interest-Rate Swaps
4. Duration and Convexity; Hedging interest rate exposure
5. Forecasting future interest rates using
 - (a) A financial-economics approach
 - (b) Practitioners approaches
6. Understanding the principles of interest rate-derivative claim valuation, hedging and uses
7. Modeling and Implementing Default Models

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.

Summary:

1. Problem sets will be disseminated and assigned throughout the semester.
2. This course in Fixed Income Analytics is quantitative in nature.