

## Syllabus for MGMT 578: Fixed-Income Securities

**Fall 2014**

**Class Time:** Monday and Wednesday, 2:00 P.M. - 3:15 P.M.

**Class Room:** ASM 2141

**Instructor:** Subramanian R. Iyer  
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Office Hours: Mondays & Wednesdays 12:15 P.M. to 1:45 P.M., or by appointment

### 1. Course Overview

*“According to the Code of Hammurabi, a Babylonian King circa 1700 BC, debtors were expected to pay the creditors, and the Code addresses legal process”. - [http://www.ehow.com/info\\_7857506\\_history-consumer-debt.html](http://www.ehow.com/info_7857506_history-consumer-debt.html)*

Originally, the term “fixed-income” was used to describe securities such as Treasury or corporate-issued bonds that promised to pay periodic payments of a fixed amount. More recently, the class of securities referred to as fixed-income securities has grown dramatically to include mortgage-backed securities, collateralized debt obligations, and credit default swaps. Periodic payments may be fixed, floating, or contingent upon market conditions or other benchmarks. Valuation of fixed-income securities has become extremely complex and challenging. Almost any set of cash flows can be turned into a fixed-income security. In this course, you will learn about many of these securities, their markets, and methods for valuing them and their risks, such as their exposure to changes in interest rates.

### 2. Texts

- a. Frank J. Fabozzi, Bond Markets, Analysis, and Strategies (2010, 8<sup>th</sup> edition)
- b. Supplemental textbook – Pietro Veronesi Fixed Income Securities: Valuation, Risk, and Risk Management

### 3. Learning Objectives:

- a. Understand the pricing and risk of fixed-income securities.
- b. Understand the markets in which they trade.
- c. Understand what drives changes in yield curves and the term structure of interest rates.
- d. Understand the importance of embedded options.
- e. Understand performance measurement and analysis.
- f. Practice analytical and problem solving skills.

### 4. Academic Integrity:

*“I hope I shall possess firmness and virtue enough to maintain what I consider the most enviable of all titles,*

*the character of an honest man.” – George Washington (1732 – 1799), First President of the United States of America*

**Anderson School of Management faculty, staff and students commit to values of trust, honesty, integrity, and accountability. We will not tolerate academic dishonesty. By enrolling in any course at Anderson, the student accepts the Anderson Academic Honesty Code and affirms the following pledge:**

***I will not lie, cheat, fabricate, plagiarize or use any other dishonest means to gain unfair academic advantage.***

Any violation of the code of conduct will be taken very seriously and appropriate sanctions will be applied. FOR FULL TEXT OF ANDERSON'S ACADEMIC HONESTY CODE, please visit <http://www.mgt.unm.edu/honesty>

## **5. Audits, Incompletes, and Drops**

This course falls under all UNM policies for the last day to drop courses, etc. Please see <http://www.unm.edu/studentinfo.html> or the [UNM Course Catalog](#) for information on UNM services and policies. Please see the [UNM academic calendar](#) for course dates, the last day to drop courses without penalty, and for financial disenrollment dates.

## **6. Access to Education**

If you are a qualified person with disabilities who might need appropriate academic adjustments, please communicate with me as soon as possible so that we may make appropriate arrangements to meet your needs in a timely manner. See the Students with Disabilities section on the [UNM Student Handbook](#). For information on assistive technology available for student use and additional information on services available through Student Accessibility Services, see <http://www.unm.edu/~sss/>.

## **7. Collaboration**

Collaborative work, such as discussing course assignments, working through analyses, and studying with other class members for the midterm and final exam, is highly encouraged.

## **8. Bi-Weekly Debt Market Report**

Macroeconomic changes influence the valuation of debt securities. It is imperative that you attempt to relate these macroeconomic changes to valuation. Therefore, you will prepare a four page with at least four diverse news items, double spaced, bi-weekly economic report. If you find multiple news items addressing the same topic, you can combine those news items and write a coherent story. This will be an individual project. This report should contain the title, author, source, and the publication day of the article. Sample news items such as -

- U.S. Economic News – such as crude oil inventories, unemployment, our trade balance, and so on, Fed meetings
- World Economic News – Emerging economies slowing down, China re-emergence, Japan rebounding, and so on.
- Do not include individual stock news – such as Apple deciding to buy back shares owing to pressure from activist investors.

You will be graded upon the quality of the news items and the logical way you relate these news items to the US debt market.

Do not copy and paste from websites. I do not want a compilation of the news items; I can very well read The Wall Street Journal. I want you to present the implication of the news items for the bond markets and interest rate outlook.

**A subscription to the Wall Street Journal is strongly recommended. Print edition of The Wall Street Journal is also available at the Parish Library.**

### 9. Course Grade

Your final course grade will be based on an average of the following:

Assignments	40%
Midterm	20%
Final exam	20%
Class participation	20%
<b>Total</b>	<b>100%</b>

The cutoffs for final course letter grades are:

- 90-100%.....A
- 80-89%.....B
- 70-79%.....C
- 60-69%.....D
- < 59%.....F

I will consider rounding up the final average for those close to the cutoff for the next higher grade, in which the decision will be based on the trend in the student's grades throughout the semester, the clustering of student averages, and my assessment of the overall effort of the student.

### 10. Extra Credit

There isn't any.

### 11. Classroom Etiquette

- a. **Be considerate of your classmates and your instructor.**
- b. All discourse with your fellow students and the instructor **must be** respectful and civil.
- c. Disruptive students will be asked to leave class and maybe dropped from the course.
- d. There is **no eating in class**, though soft drinks (please open the bottles or cans before class starts), or coffee, are allowed.
- e. Do not place your foot on the chair or table next to you. It is utterly disrespectful.
- f. **Turn off your cell phones** before class begins and leave them off. This also means **no text messaging** during class. Violation will result in dismissal for that class period.
- g. **Laptop use pertaining to class material is allowed.**
- h. If you leave class to talk on your cell phone, or leave for any other reason without permission, you are **not** allowed to return to class.
- i. You should **not** be talking amongst yourselves during class unless it is short-lived and it pertains to class material.
- j. Show up to class on time. I believe that punctuality is essential. Please do not disrupt the class

rhythm by showing up late. If you leave the class without informing me in advance with a genuine reason, you will lose class participation credit for that session. Requests for consistent late-arrival (early-departure) to (from) class due to any reason will not be entertained.

#### Tentative List of Chapters

1. Chapter 1 – Introduction
2. Chapter 6 – Treasury and Federal Agency Securities
3. Chapter 2 – Pricing of Bonds
4. Chapter 3 – Measuring Yield
5. Chapter 4 – Bond Price Volatility
6. Chapter 5 – Factors affecting Bond Yields and the Term Structure of Interest Rates
7. Chapter 22 – Bond Portfolio Management Strategies
8. Chapter 23 – Bond Portfolio Construction
9. Chapter 24 – Liability – driven Strategies
10. Chapter 10 – Residential Mortgage Loans
11. Chapter 11 – Agency Mortgage Pass Through Securities
12. Chapter 12 – Agency CMOs and Stripped MBS
13. Chapter 14 – Commercial Mortgage Loans and Commercial Mortgage-backed securities
14. Chapter 17 – Analysis of Bonds with Embedded Options
- 15. Chapter 29 – Credit Default Swaps**