

NEW YORK UNIVERSITY STERN SCHOOL OF BUSINESS
Topics in Fixed Income Markets (FINC-GB.3153.89)
February 10 – March 10, 2017

Instructor: Bruce Tuckman
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Teaching Assistant: Maxwell Lee

Description

This course is designed to convey a broad understanding of fixed income markets and a basic foundation in pricing and hedging analytics. The first two classes will be dedicated to an institutional overview, including current developments in monetary policy. The third class will cover pricing and hedging basics, with the aid of one case study. The fourth class will discuss a few large and important securities and markets, namely, interest rate swaps, corporates and CDS, and mortgages and MBS, with related regulatory developments. The fifth class will introduce liquidity management, both from the perspective of past disasters and of current practices at large financial institutions.

Materials

Iyer, S. Veena, "Jaguar Land Rover PLC: Bond Valuation," Case #9B15N012, Management Development Institute Gurgaon and Richard Ivey School of Business Foundation, July 31, 2015.

Kahan, Marcel and Bruce Tuckman, "Do Bondholders Lose from Junk Bond Covenant Changes," *The Journal of Business* 66(4), 1993. (OPTIONAL)

Tuckman, Bruce. Lecture Slides, 2017 (to be distributed the first day of class).

Tuckman, Bruce, "Survive the Droughts, I Wish You Well: Principles and Cases of Liquidity Risk Management," forthcoming, NYU Stern Salomon Brothers Center monograph series, May 2017.

Tuckman, Bruce and Angel Serrat, *Fixed Income Securities: Tools for Today's Markets, 3rd Edition*, Wiley, 2012. Selections from Chapters 1, 2, 3, 4, 16, 19, 20.

Outline

February 10-11: Overview of fixed income markets in the United States, Europe, and Japan, with special emphasis current events, e.g., liquidity in U.S. Treasury and corporate bond markets; lessons for bondholders from the Detroit bankruptcy and municipal pension underfunding; the decline of prime money market funds; fiscal and banking weaknesses in Europe; post-crisis actions of central banks (Fed, ECB, BOJ); negative yields around the world.

February 24, part 1: Jaguar Land Rover—Review of bond pricing fundamentals.
Iyer (2015)

Tuckman and Serrat (2012): Chapter 1, pp. 51-58, 62-65; Chapter 3, pp. 99-104, 114-116.

February 24, part 2: Interest Rate Risk and Hedging

Tuckman and Serrat (2012): Chapter 4

February 25: Interest Rate Swaps, Corporate Bonds and CDS, mortgages and MBS.

Tuckman and Serrat (2012): Chapter 2, pp. 71-73; Chapter 16, pp. 441-450; Chapters 19, 20.

March 10, part 1: Exam

March 10, part 2: Cases in Liquidity Management: Northern Rock and MF Global.

Grading

The class grade will be determined by Jaguar case preparation (25%), Exam (65%), and attendance/participation on March 10, part 2 (10%).