FINA 6121 Debt Markets and Hedging
Executive Summary

Carlson School of Management
University of Minnesota

Course: FINA 6121 Debt Markets and Hedging
Credits: 2 credits
Prerequisites: MBA 6230

Description

Debt instruments are an important source of financing for both corporations and governments. This course will focus on developing a sound approach to valuing fixed income securities and basic interest rate derivatives. The course will also develop an understanding of the term structure of interest rates, measures of interest rate risk and a survey of fixed income markets. Valuation of fixed income securities is highly mathematical and often quite complex. There will be an emphasis on the theoretical framework of interest rate markets and valuation, because understanding these fundamentals gives financial professionals a solid foundation for understanding the continuously evolving fixed income markets.

Objectives

1. Introduce the relative pricing of "risk-free" fixed cash flows using the no-arbitrage condition.
2. Introduce the concepts of spot rates, forward rates and the term structure of interest rates, as well as the market conventions of yield-to-maturity and spreads.
3. Introduce measures of interest rate risk and their use in hedging.
4. Introduce Treasury securities financing markets and basic interest rate derivatives.
5. Provide a survey of the major segments of the domestic debt markets.

Learning Outcomes

1. Students will demonstrate the ability to derive the term structure of interest rates from the prices of Treasury securities and use this information to determine the relative value of various debt instruments.
2. Students will understand how to identify mispricings in spot and forward markets using arbitrage arguments and construct trading positions to exploit these mispricings.

3. Students will use duration and convexity to quantify interest rate risk and develop hedging strategies to manage this risk using the cash and derivatives markets.

4. Students will gain a familiarity with the Treasury, Agency, Municipal, Corporate, Asset-Backed and Mortgage-Backed Securities markets and the basic structures and conventions in these markets.