

**STERN SCHOOL OF BUSINESS  
DEPARTMENT OF FINANCE  
NEW YORK UNIVERSITY**

**C15.0026  
Debt Instruments and Markets**

**Professor Edwin J. Elton  
Fall 2010**

**COURSE OUTLINE**

**Warning:**

The study of fixed income securities is quantitative by nature and the material in this course is very technical. Students should have a background in basic finance and should be comfortable using math and working with numbers. Please keep this in mind in deciding whether to take this course.

**Course Material:**

- **Lecture Notes:** Packets of lecture notes are available at the bookstore or on blackboard.

The grade will depend on the mid-term, final, and the problems. There will be problems assigned from time to time. Prior exams with answers are on the blackboard.

**Office Hours:**

Monday	10:00-12:00	Office: KMC 9-70
Wednesday	10:00-12:00	Phone: (212) 998-0361

**Grades:**

Grades will be based on the following:

**Class Participation (5%)  
Problem Sets (5%)  
Midterm (40%)  
Final (50%)**

**Problem Sets:**

Because the material is analytical and new concepts build on old ones, it will be essential to do the problem sets in order to follow the lectures and succeed in the exams. To facilitate learning, I encourage students to work together on these problem sets. Groups of students working together should submit just one assignment. All students in the same group will get the same grade. **I will not accept late assignments.**

**Exams:**

You must take each of our exams as scheduled. Otherwise with the following two exceptions, your grade for the exam will be zero.

- 1.) In case of legitimate, foreseeable conflict, in order to take the exam at a different time, you must make a request in writing or by email at least one week prior to the exam and obtain my written or email permission prior to the exam.
- 2.) In case of an emergency, you must provide formal, written verification, such as a letter from a doctor

Although sections may vary somewhat, the Department of Finance suggests a grade distribution of:

<b>A/A-</b>	<b>20-25%</b>
<b>B</b>	<b>55-70%</b>
<b>C &amp; Below</b>	<b>10-20%</b>

This distribution is intended to make standards comparable across advanced classes, as required by the school. I intend to follow this distribution on average.

**I. Background (1)**

N: Fixed Income Securities

**II. Simple Analytics (2)**

N: Understanding Bond Conventions

**III. Spot and Forward Rates (3)**

N: The Multiplicity of Rates

N: What Changes the Term Structure

**IV. The Repo Market (1)**

N: The Repo Market

**V. Treasury Bond Valuation (1)**

N: Treasury Bond Valuation

**VI. Tax and Accounting Issues (1)**

N: Tax Treatment

**VII. Protecting Against Term Structure Shifts (3)**

N: Protecting Against Term Structure Shifts

**VIII. Forward Contracts (2)**

N: Forwards and Futures

**IX. Floating Rate Notes and Swaps (2)**

N: Floaters and Inverse Floaters

N: Interest Rate Swaps

**X. Bond Options (3)**

N: Option Valuation

N: Caps, Floors and Collars

**IX. Corporate Bonds (2)**

N: Corporate Bonds

N: Credit Swaps

**XII. Mortgages (2)**

N: Mortgage-Backed Securities

N: Trends in the Mortgage Market

**XIII International Bond Management (2)**

N: International Diversification

**XIV. Active Bond Strategies (2)**

N: Bond Portfolio Management

**XV. Bond Evaluation (1)**

N: Evaluating Bond Funds