

FIN 427 Debt Instruments and Markets
TTh 11:00–12:15PM
Room 12 Bloch
Winter 2011

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DESCRIPTION

FIN 427 provides an overall view of the role of debt markets in the modern economy. The course will cover the characteristics of instruments traded in money and capital markets; determinants of and the relationships between different security prices; and international aspects of financial markets. In particular, topics that will be covered include: Valuing fixed income securities, managing interest rate risk, interest rate theory, the organization of bond markets, and the structure and pricing theory underlying the mortgage-related fixed income market. The course prerequisites are FIN 325 and ECO 202. Facility with time value of money, simple algebra, and basic economics skills are assumed.

MATERIALS

The required text for this course is *Bond Markets, Analysis, and Strategies*, 7th ed., by Frank J. Fabozzi (Pearson/Prentice-Hall). A financial calculator is also required; the Hewlett Packard HP-10B or Texas Instruments BA-II PLUS are recommended models. If you buy a used calculator or borrow a friend's, make sure to get a manual and a new battery.

ASSISTANCE

The preferred means for quickly contacting me is via email; I usually respond to emails within 24 hours, at most. My official office hours are by-appointment only; however, I am always available to set up an appointment to meet with you at a mutually convenient time, if necessary. I also encourage you to collaborate with your classmates via informal study groups; you can help each other work through the rough spots when you encounter them. I have found through the years that if you can successfully explain something to another person, the ability to do so cements and improves your own knowledge and comfort level with the material.

GRADING

There will be three non-comprehensive midterm exams of approximately 25 questions per test, each equally-weighted towards your total course grade. The exams will have both true-false and multiple-choice format sections. The first two exams will be given in Bloch 12 during the normal class time. The third exam will be given during final exams week. The exam dates are: Feb 17, March 24, and May 3. For each exam, you may bring with you *one* 8.5 by 11 inch "crib sheet," you are free to write anything you choose on the crib sheet for your benefit, both sides of the paper. A calculator is also allowed, otherwise, the exams are closed-book.

There will also be three takehome assignments distributed prior to each of the three exams. While I have graded these assignments in the past, this term I have decided not to do so. Nonetheless, I am confident you will find that the takehomes—which are of my own design—prove to be an excellent study aid for the exams; I will provide detailed solutions for you prior to each test. You are strongly encouraged to take these assignments seriously and treat them as if they were an integral part of your course grade. Indirectly, they are: If you cannot make any traction with the takehomes, you will not do well on the tests.

Your overall course grade will be determined at the end of the semester on the 90/80/70/60 point scale, based on 100 total points; plus/minus grading is used. A curve of my choosing will be determined at the end of the semester, if necessary, so that the overall class average is at least an 80%. There is no extra-credit, and no surprise quizzes or unannounced homework will be given.

ATTENDANCE

Attendance is not mandatory but is strongly encouraged. I put a great deal of effort into organizing useful and informative lectures, it is a safe bet on your part that the exam questions will be taken largely from material I have covered in class. My recommended strategy to you for success is to attend the lectures, then read the corresponding material in the text, and then do the practice sets and homework problems that I ask of you. If you reach a comfort level at that stage of the process, then you should be comfortable with the exam material. I do not like to “surprise” students on exams, and I do not use “gotcha”-type exam questions.

ADMINISTRATIVE MATTERS

If you have any special needs as addressed by the *Americans with Disabilities Act*, please notify me as soon as possible. There will be no make-ups for missed exams under any circumstances. If you must unavoidably miss one of the scheduled tests, your course grade will be based on the two exams that you do take. You do not need to provide an explanation, in advance or after the fact, for why you missed the test. However, no student will be allowed to miss two of the exams, no matter the explanation, reasonable or not. Further, all students must take the third midterm exam on May 3, no exceptions!

Finally, please note the college’s policy regarding course withdrawals, should you choose that avenue at some point. The last day to drop the course this term is Apr 8. Any student that does not withdraw by that date will receive a grade in the course based on your performance, without exceptions. For any student that does withdraw from the course on or before Apr 8, it is my policy to give a “withdraw-pass” regardless of your actual grade in the class at that time, even if you are failing.

TENTATIVE LECTURE SCHEDULE

This outline is subject to change as the semester progresses, but the schedule below should be fairly accurate.

Week One:	Course introduction
Week Two:	Review of bond basics; Bond pricing and risk
Week Three:	More on bond pricing and risk
Week Four:	Duration and immunization; Risk components of bond yields
Week Five:	Callable bonds and STRIPS; The term structure of interest rates
Week Six:	Money market securities
	Midterm Exam #1 (Feb 17) <i>Fabozzi text readings for Weeks 1–6: Chapters 2–5</i>
Week Seven:	Bond market quoting conventions; The US Government bond market
Week Eight:	New-issue auction procedures; Corporate and agency bond markets
Week Nine:	Municipal bond markets; Tax treatment of bonds
Week Ten:	Inflation-protected bonds; International bond markets
Week Eleven:	Bond repurchase markets
	Midterm Exam #2 (Mar 24) <i>Fabozzi text readings for Weeks 7–10: Chapters 6–9</i>
Week Twelve:	Spring Break (Mar 29 and Mar 31)
Week Thirteen:	Introduction to the mortgage finance market; Loan amortization schedules
Week Fourteen:	Mortgage prepayment models and mortgage pools
Week Fifteen:	The MBS bond market and MBS bond valuation
Week Sixteen:	Financial innovation: CMOs, PACs and TACs
	Midterm Exam #3 (May 3) — <i>Finals Week, test begins at 3:30 PM</i> <i>Fabozzi text readings for Weeks 11–16: Chapters 10–13</i>