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Finance 853 Debt, Money Instruments and Markets  
Syllabus

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“Debt, Money Instruments and Market” rounds out a portfolio of major topic areas in finance and will be of interest to any MBA student who is interested in either investment or corporate finance. This course provides students with a focused examination of the debt market. Topics examined include valuation, term structure of interest rates, derivatives of fixed income instruments, Treasury securities, corporate bonds, mortgage-backed securities, municipal securities, and bond portfolio management. The course should also be beneficial to students that want to pass CFA exams.

Teaching material:

1. Course note package and additional materials online;
2. Textbook: Frank J. Fabozzi, Bond Markets, Analysis and Strategies, (Hardcover: 792 pages, Publisher: Prentice Hall; 6<sup>th</sup> or 7<sup>th</sup> editions) Available in Spartan Bookstore.
3. Cases (case pack is available for sale at \$ 18.21 in Spartan Bookstore in the International Center.
  - a. The Harvard Management Co. and Inflation-Protected Bonds (HBS Case 201053).
  - b. Cougars (HBS Case 295006).
  - c. Enron Corp.: Credit Sensitive Notes (HBS Case 297099).
  - d. Subprime Meltdown: American Housing and Global Financial Turmoil (HBS Case 708042).

**Instructional methods:**

The course will be in a traditional lecture format. Students will be evaluated by several assignments, four cases and final exams. The weights are as follows: participation 4%, assignments 16% (8% each), the four cases 15% each, and the final exam 20%. All assignments are due before the class starts. In addition, I am planning for 3-4 quizzes in class. While those are not directly graded, they will provide you and me with useful information of where the weak spots are.

**Tentative office hours:**

Tuesday: 1:00pm -3:00pm  
Thursday: 1:00pm -3:00pm  
(or by appointment)

**Make-up midterm exam:** I usually do not have make-up exams. If you have to miss the exams, you are expected to provide me *very good* reasons.

**Feedback:** There is more than enough material that can be covered in this course. How we do it depends on how the students are comfortable with the pace. Your feedback is especially important to me. Written feedback by e-mail is especially useful.

**Special Classes:** We are planning for one guest lecture. I expect everyone to attend that day. Date will be announced in early September.

**Pre-requisites:** While I do not have official pre-requisites, here are your fair warnings:

- I expect that the basics of Finance and Economics is somehow digested by you.
- Some knowledge in Probability Theory is essential (you should know what is expectation of random variable, standard deviation, correlation, etc.)
- I am going to use a lot of MS Excel examples. Also, some of the problem sets and exercises assume that you know some Excel and have some experience with it (or are willing to learn). Please also note that I am NOT going to object if you are going to use Fin Calculator (or any other software of your choice).

**Integrity:** Students are expected to conform to Michigan State University's Code of Conduct.

The following is a rough schedule of the classes for the course (subject to change). All classes are scheduled in Eppley 119 , 16.10-17.30.

Class	Date	Content	Coverage
1	9/03/2009	Introduction	Chapter 1
2	9/08/2009	Bond mathematics	Chapters 2, 3, 4, 6
3	9/10/2009	Bond mathematics	Chapters 2, 3, 4, 6
4	9/15/2009	Bond mathematics	Chapters 2, 3, 4, 6
5	9/17/2009	Bond mathematics	Chapters 2, 3, 4, 6 (PS1 is due)
6	9/22/2009	Bond mathematics	Chapters 2, 3, 4, 6
7	9/24/2009	Term structure of interest rate	Chapter 5
8	9/29/2009	Term structure of interest rate	Chapter 5
9	9/25/2009	Term structure of interest rate	Chapter 5
10	10/01/2009	No class	
11	10/6/2009	Case 1: Harvard Management Company and Inflation Protected Bonds	
12	10/8/2009	Term structure of interest rate	Chapter 5
13	10/13/2009	Agency and corporate debt	Chapter 7, 20
14	10/15/2009	Agency and corporate debt	Chapter 7, 20 (PS2 is due)
15	10/20/2009	Guest lecture Andrew Harding CIO of Fixed Income Allegiant Asset Management (formerly National City, now PNC)	
16	10/22/2009	Tax exempt securities	Chapter 8
17	10/27/2009	Futures	Chapter 26
18	10/29/2009	Futures	Chapter 26
19	11/03/2009	Case 2: Cougars	
20	11/5/2009	Swap	Chapters 18
21	11/10/2009	Swap	Chapters 18
22	11/12/2009	Swap	Chapters 18
23	11/17/2009	Case 3: Enron Credit Sensitive Notes	Chapters 18
24	11/19/2009	Mortgaged backed securities	Chapters 10, 11, 12
25	11/24/2009	Mortgaged backed securities	Chapters 10, 11, 12
26	12/01/2009	Case 4: Subprime Meltdown	
27	12/03/2009	Review	
28	12/08/2009	Final exam	

**Additional Literature:**

Here are some articles that complement the main text

[The changing shape of fixed income markets: a collection of studies by central bank economists](#) Bank for International Settlements Paper No 5, 2001.

Carmen M. Reinhart and Kenneth S. Rogoff [The Forgotten History of Domestic Debt, Harvard U Working paper \(2009\)](#).