

## Subject Description Form

<b>Subject Code</b>	AF4326
<b>Subject Title</b>	Fixed Income Securities
<b>Credit Value</b>	3
<b>Level</b>	4
<b>Pre-requisite / Co-requisite/ Exclusion</b>	<b>Pre-requisite:</b> Investments (AF3316)
<b>Objectives</b>	This course is concerned with fixed income securities and interest rate risk management. It will introduce tools used to explore the theoretical and empirical aspects of fixed income securities and their derivatives. It contributes to the achievement of the BBA programme outcomes by enabling students to <u>understand and analyze real life issues related to fixed income securities</u> , and <u>apply relevant concepts and tools to solve problems on fixed income investment</u> (Outcome 7). It will also help students improve their ability to communicate effectively in English through assignments, discussions and presentations (Outcome 1).
<b>Intended Learning Outcomes</b> (Note 1)	Upon completion of the subject, students will be able to: <ul style="list-style-type: none"> <li>a. <u>Understand, explain and analyze the issues</u> in pricing, hedging, and arbitrage in the fixed income securities markets.</li> <li>b. Evaluate various types of fixed income products and <u>analyze</u> their potential risk and return.</li> <li>c. <u>Apply theories and concepts</u> learned and analyze fixed income investment decisions.</li> <li>d. Understand and explain the recent developments and issues of the fixed income markets.</li> <li>e. Enhance their ability to <u>communicate effectively in English</u> through assignments, discussions and presentations.</li> </ul>
<b>Subject Synopsis/ Indicative Syllabus</b> (Note 2)	<p><b>The Basic Products</b> Bond price arithmetic. Treasury bills, notes, bonds and strips. Organization of government bond markets. Spot rates, par rates and forward rates. Constructing zero curves.</p> <p><b>Risk Management</b> Measures of price sensitivity. Simple hedging strategies using fixed income derivatives. Eurodollar futures. Bond futures. Interest rate swaps.</p> <p><b>Pricing Interest Rate Claims</b> Theories of the term structure. Arbitrage free pricing.</p> <p><b>Corporate Bonds and Credit Risk</b> Credit ratings. Default risk and credit spread. Credit derivatives.</p> <p><b>Mortgages and Their Derivatives</b></p>

	Residential mortgages and mortgage backed securities. Prepayment risk.																																																															
	<p><b>Bonds with Embedded Options</b></p> <p>Basic pricing principles. Static spread and option-adjusted spread. Negative convexity. Effective duration and convexity.</p>																																																															
<p><b>Teaching/Learning Methodology</b></p> <p>(Note 3)</p>	Lectures and seminars will be conducted on the topics of the syllabus. Lecture time will be used flexibly for discussing key concepts and their applications with students and carrying out other learning activities with them. Such activities include group discussions and student presentations of their work. To maximize benefits, students are encouraged to share their views and experiences actively with their lecturer and classmates.																																																															
<p><b>Assessment Methods in Alignment with Intended Learning Outcomes</b></p> <p>(Note 4)</p>	<table border="1"> <thead> <tr> <th rowspan="2">Specific assessment methods/tasks</th> <th rowspan="2">% weighting</th> <th colspan="6">Intended subject learning outcomes to be assessed (Please tick as appropriate)</th> </tr> <tr> <th>a</th> <th>b</th> <th>c</th> <th>d</th> <th>e</th> <th></th> </tr> </thead> <tbody> <tr> <td>1. Mid-term test</td> <td>10%</td> <td>√</td> <td>√</td> <td>√</td> <td>√</td> <td>√</td> <td></td> </tr> <tr> <td>2. Individual Essay</td> <td>10%</td> <td>√</td> <td>√</td> <td>√</td> <td>√</td> <td>√</td> <td></td> </tr> <tr> <td>3. Group Presentation</td> <td>20%</td> <td>√</td> <td>√</td> <td>√</td> <td>√</td> <td>√</td> <td></td> </tr> <tr> <td>4. Participation</td> <td>10%</td> <td></td> <td></td> <td></td> <td></td> <td>√</td> <td></td> </tr> <tr> <td>5. Final Examination</td> <td>50%</td> <td>√</td> <td>√</td> <td>√</td> <td>√</td> <td></td> <td></td> </tr> <tr> <td>Total</td> <td>100 %</td> <td colspan="6"></td> </tr> </tbody> </table> <p>Explanation of the appropriateness of the assessment methods in assessing the intended learning outcomes:</p>		Specific assessment methods/tasks	% weighting	Intended subject learning outcomes to be assessed (Please tick as appropriate)						a	b	c	d	e		1. Mid-term test	10%	√	√	√	√	√		2. Individual Essay	10%	√	√	√	√	√		3. Group Presentation	20%	√	√	√	√	√		4. Participation	10%					√		5. Final Examination	50%	√	√	√	√			Total	100 %						
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<p><b>Reading List and References</b></p>	<p>Fabozzi, F., <i>Bond Markets, Analysis, and Strategies</i>, 8th edition, Pearson.</p> <p>Levine, R., <i>How to Make Money with Junk Bonds</i>, 2012, McGraw Hill.</p> <p>Supplementary readings from academic/professional journals and websites.</p>																																																															

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Note 1: Intended Learning Outcomes

Intended learning outcomes should state what students should be able to do or attain upon completion of the subject. Subject outcomes are expected to contribute to the attainment of the overall programme outcomes.

Note 2: Subject Synopsis/ Indicative Syllabus

The syllabus should adequately address the intended learning outcomes. At the same time over-crowding of the syllabus should be avoided.

Note 3: Teaching/Learning Methodology

This section should include a brief description of the teaching and learning methods to be employed to facilitate learning, and a justification of how the methods are aligned with the intended learning outcomes of the subject.

Note 4: Assessment Method

This section should include the assessment method(s) to be used and its relative weighting, and indicate which of the subject intended learning outcomes that each method purports to assess. It should also provide a brief explanation of the appropriateness of the assessment methods in assessing the intended learning outcomes.