

**COURSE DATA****Data Subject**

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|----------------------|-------------------------------------|
| Code | 35854 |
| Name | Fixed-income markets and strategies |
| Cycle | Grade |
| ECTS Credits | 6.0 |
| Academic year | 2018 - 2019 |

Study (s)

| Degree | Center | Acad. year | Period |
|---|----------------------|-------------------|---------------|
| 1313 - Degree in Business Management and Administration | Faculty of Economics | 3 | Second term |
| 1330 - Degree in Business Management and Administration (Ontinyent) | Faculty of Economics | 3 | Annual |

Subject-matter

| Degree | Subject-matter | Character |
|---|---|------------------|
| 1313 - Degree in Business Management and Administration | 45 - Compulsory subjects in the pathway: financial management | Optional |
| 1330 - Degree in Business Management and Administration (Ontinyent) | 24 - Materia Optatividad 3er curso | Optional |

Coordination

| Name | Department |
|----------------------|---|
| PARDO TORNERO, ANGEL | 113 - Financial and Actuarial Economics |

SUMMARY

The course *Fixed Income Transactions and Markets* is a compulsory one belonging the itinerary of to the Financial Management and the Business-Legal Management modules. This course is taught during the second term of the third year of the Degree in Business Administration, representing 6 ECTS crèdits.

The main aim of this course is to provide students with a basic, though rigorous and updated, analysis of financial transactions and fixed income spot and derivatives Markets.



The contents of this course are structured in three main parts. The first one consists of an introduction to financial trading. It is devoted to review the most relevant concepts covered by the course *Financial Maths* which was studied during the the first term of the second year and to go into several ways of trading in depth, both through single and double transactions. The second part is made up of three units devoted to fixed income securities and Markets. Short-term debt, both Treasury bills and commercial paper, mid-term and long-term debt, including Treasury bonds and Corporate bonds are carefully analyzed. Lastly, a descriptive analysis of fixed income Markets is made. The third part of the course is divided into three units and deals with the interest rate risk management, focusing not only on the interest rate risk and the financial immunization but also on the analysis of derivatives instruments both on OTC and on organized Markets.

PREVIOUS KNOWLEDGE

Relationship to other subjects of the same degree

There are no specified enrollment restrictions with other subjects of the curriculum.

Other requirements

By taking the course Fixed Income Transactions and Markets, students are expected to go into the knowledge acquired in the course Financial Maths of the second year of the Degree in depth.

The acquired knowledge in this course will be complemented each other with those from the course Banking Analysis and Management which is devoted to the study of banking transactions and with those from the course Stock Markets which goes into stock markets and their derivatives instruments in depth.

OUTCOMES

1313 - Degree in Business Management and Administration

- Demonstrate capacity for analysis and synthesis.
- Be able to make decisions.
- Know the fixed-income and equity markets and their derivatives, as well as the different securities traded on them.
- Be able to value financial assets and derivatives, and to manage fixed-income and equity portfolios.

LEARNING OUTCOMES

- Possibility of discriminating between several financial securities and selecting based on aims to achieve.



- Possibility of trading in several financial Markets, including derivatives Markets, based on the knowledge of the operating, valuing rules and working of them.
- Capability of precisely quantifying the risks faced by firms as a result of their financial investments.
- Capability of managing the interest rate risk embedded in fixed income portfolios.

DESCRIPTION OF CONTENTS

1. TRADING OF FINANCIAL TRANSACTIONS

In this first chapter, the goal is twofold. Firstly, to remind the student of key concepts related to financial transactions and financial securities valuation that she learned in previous courses and, secondly, to introduce several ways of trading on the Spanish market.

1. Financial transaction.
 - 1.1. Concept.
 - 1.2. Outstanding balance.
 - 1.3. Loans.
 - 1.4. The internal effective rate and additional terms and conditions.
2. Internal and external liquidity.
3. Market value of the financial transactions.
4. Public and private debt investment.
5. Ways of trading.
 - 5.1. Transaction classification.
 - 5.2. Single transactions
 - 5.2.1. Spot transactions.
 - 5.2.2. Forward transactions.
 - 5.3. Double transactions.
 - 5.3.1. Blocked repos.
 - 5.3.2. Ordinary repos.
 - 5.3.3. Criterion to be followed in the calculus of the price and yield of double transactions.
 - 5.4. Stripping and Reconstitution .
6. Rating agencies.

2. SHORT-TERM DEBT

This chapter tackles the concept, characteristics and valuation of the most relevant short-term fixed income securities in the Spanish market: Treasury bills and commercial paper issued by firms and Spanish regional governments.

1. Introduction.
2. Treasury bills.
 - 2.1. Characteristics



- 2.2. Issued in auction.
- 2.3. Interest rates.
- 2.4. Ways of trading.
- 2.5. Internal effective rates.
- 3. Commercial paper issued by firms.
 - 3.1. Characteristics
 - 3.2. Issue and trading.
 - 3.3. Interest rates.
 - 3.4. Internal effective rates.
- 4. Commercial paper issued by the Generalitat Valenciana.

3. MID-TERM AND LONG-TERM DEBT

This chapter tackles the study of the characteristics and valuation of mid-term and long-term Public and Private Debt securities. It specially focuses on the issues in auctions of Government bonds and their subsequent trading, as well as on the wide range of corporate bonds traded on the SEND market.

- 1. Bonds:
 - 1.1. Concept and notation.
 - 1.2. Classification and types of issue.
- 2. Government bonds.
 - 2.1. Characteristics
 - 2.2. Issued in auction.
 - 2.3. Tipos de interés.
 - 2.4. Ways of trading.
 - 2.5. Internal effective rates.
 - 2.6. Strip bonds.
- 3. Corporate debt.
 - 3.1. Bonds with options.
 - 3.2. Other fixed income private securities.

4. FIXED INCOME TRADABLE SECURITIES MARKETS

This chapter deals with the basic characteristics of primary and secondary fixed income Markets in the present Spanish financial system.

- 1. Public Debt Market
 - 1.1. Introduction.
 - 1.2. Institutional framework of the Public Debt Market.
 - 1.3. The Public Debt Primary Market.
 - 1.4. The Public Debt Secondary Market.
- 2. Private Fixed Income Market
 - 2.1. Introduction.
 - 2.2. The Primary Market.



- 2.3. The Secondary Market.
- 2.3.1. The AIAF Market.
- 2.3.2. The Stock Exchanges.
- 2.3.3. SEND
- 2.3.4 Debt Market in book-entry form.

5. THE INTEREST RATE RISK

This chapter is devoted to the analysis of interest rate risk. In order to face potential non-expected variations in interest rates, the goal is analyzing the consequences derived from the management of fixed income portfolios.

- 1. Valuing financial transactions and interest rates.
- 2. Spot and Forward interest rates.
- 3. Term structure of interest rates.
- 3.1 Definition.
- 3.2. Applications and limits.
- 4. The price risk.
- 4.1. Concept.
- 4.2. Duration and convexity.
- 5. The reinvestment risk and the financial immunization.
- 6. Interest rate risk and trading of financial transactions.

6. INTEREST RATE DERIVATIVES

This chapter deals with the main characteristics, uses and settlement of derivatives instruments on interest rates traded on OTC Markets.

- 1. Forward Rate Agreements (FRA).
- 1.1. Concept and characteristics.
- 1.2. Calculation of maximum and minimum interest rates.
- 1.3. Settlement of the contract and example.
- 1.4. Hedging and speculation.
- 2. SWAP Agreements.
- 2.1. Concept and components.
- 2.2. Hedging and speculation.
- 2.3. Settlement of the contract and example.
- 2.4. Difference with FRA.
- 3. OTC options on interest rates.
- 3.1. CAP options.
- 3.2. FLOOR options.
- 3.3. COLLAR options.
- 4. ORGANISED MARKETS

**WORKLOAD**

| ACTIVITY | Hours | % To be attended |
|--|---------------|------------------|
| Theory classes | 30,00 | 100 |
| Classroom practices | 30,00 | 100 |
| Attendance at events and external activities | 6,00 | 0 |
| Development of group work | 2,00 | 0 |
| Development of individual work | 0,00 | 0 |
| Study and independent work | 40,00 | 0 |
| Readings supplementary material | 1,00 | 0 |
| Preparation of evaluation activities | 17,00 | 0 |
| Preparing lectures | 7,00 | 0 |
| Preparation of practical classes and problem | 7,00 | 0 |
| Resolution of case studies | 10,00 | 0 |
| TOTAL | 150,00 | |

TEACHING METHODOLOGY

The theoretical sessions will consist of the lecture by the lecturer of the contents included in each chapter of this course. Students are encouraged to participate actively in all classes and so enhancing their critical capacity and their ability to argue and defend ideas in debates. In doing so, the students will get marks as part of their continuous assessment.

The practice sessions will consist of solving exercises by the lecturer and/or by the students, both during the theoretical and the practice sessions. An exercise questionnaire will be available to the students and some of these exercises will be expected to be solved by them as individual work. Besides, students will have to solve practice exercises not only as individual work but also as working-in-group, which will have to be handed in or used as presentations in the classroom.

EVALUATION

The assesment procedure of this course will consist of:

1. A written exam, that will have both theoretical questions and practice exercises, and also real cases. This exam will allow the student to gain until 80% of the final mark. The student should pass this written exam by exceeding the minimum mark (5 points over 10) in order to sum the rest of the marks gotten in the continuous assessment.



2. The continuous assessment is based on the attendance to classroom and the rest of attending formation activities and on the participation and involvement of the students to the learning-outcome process. This part will consist of the assessment of the practical exercises developed by the students during the term. These tasks comprise the completion of works and/or oral presentations, and the written questionnaire/tests demanded, representing the 20% of the final grade of the course.

Notes:

- Those students that do not get the passing grade in the first written exam will have another chance to be assessed in a second examination session, keeping the marks obtained in the second part of the assessment without the possibility of handing in new tasks to improve their marks in this second part.
- As a result of the second examination session, the assessment methodology will be identical to the one in the first announcement.

REFERENCES

Basic

- AFI (2015): Guía del Sistema Financiero Español, Biblioteca de Economía y Finanzas, Ediciones Empresa Global, Madrid, 7ª Edición.
- Knop, R. (2005): Manual de Instrumentos Derivados, Biblioteca de Economía y Finanzas, 13, Ediciones Empresa Global, Madrid.
- Meneu, V.; M.P. Jordá y M.T. Barreira (1994): Operaciones Financieras en el mercado español, Editorial Ariel Economía, Barcelona.
- Meneu, V.; E. Navarro y M.T. Barreira (1992): Análisis y Gestión del riesgo de interés, Editorial Ariel Economía, Barcelona.
- Navarro, E. y J. Nave (2001): Fundamentos de matemáticas financieras, Antoni Bosch.
- Vilariño, A.; J. Pérez y F. García (2008): Derivados. Valor Razonable, Riesgos y Contabilidad. Teoría y casos prácticos. Ed. Pearson Educación.

WEBS de interés

AIAF: <http://www.aiaf.es/esp/asp/Portadas/Home.aspx>

Banco de España: www.bde.es

BME Renta Fija: <http://www.aiaf.es/esp/asp/Portadas/Home.aspx>

CNMV: www.cnmv.es

EUREX: www.eurexchange.com

Generalitat Valenciana: www.gva.es.



MEFF: www.meff.es.

Revista Bolsa: www.bolsasymercados.es

SEND: <http://www.aiaf.es/esp/aspx/Portadas/HomeSEND.aspx>

Tesoro Público: www.tesoro.es.

