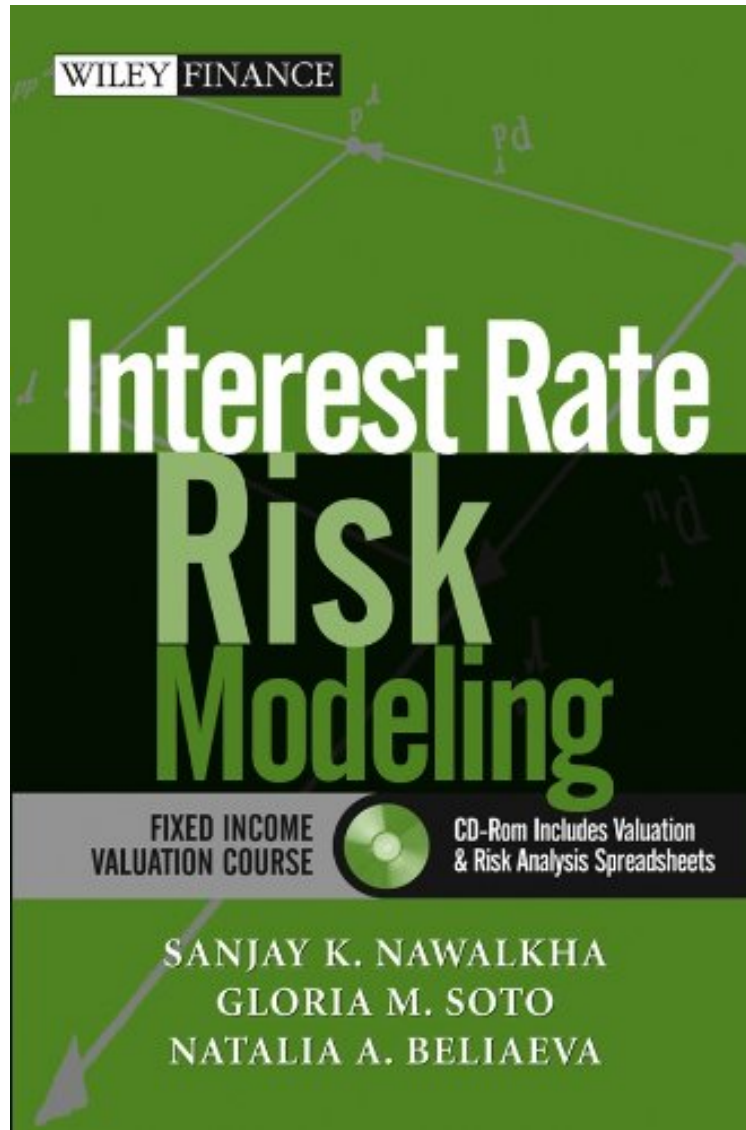


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Interest Rate Risk Modeling: The Fixed Income Valuation Course (Wiley Finance)

Sanjay K. Nawalkha, Gloria M. Soto, Natalia A. Beliaeva

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Sanjay K. Nawalkha, Gloria M. Soto, Natalia A. Beliaeva : Interest Rate Risk Modeling: The Fixed Income Valuation Course (Wiley Finance) before purchasing it in order to gauge whether or not it would be worth my time, and all praised Interest Rate Risk Modeling: The Fixed Income Valuation Course (Wiley Finance):

1 of 2 people found the following review helpful. Very instructive but not for beginners to interest rate risk modeling. By Dr. Lee D. Carlson. Since there are many examples of investment failures due to ignoring interest rate risk it has become a cliché; to say that interest rate modeling is of vast importance in the financial and insurance

industry. A perusal of the historical data on interest rates shows that they can fluctuate dramatically, and so the prediction of these fluctuations, and the hedging of investment portfolios against them, is absolutely necessary. Bond and fixed income products are usually the ones that are studied in relation to interest rate risk since it is usually known in advance the terms of future cash flows or coupons. But such knowledge is only part of the story, since an investor needs to know the present value of the securities that are based on these products, and the determination of this value and any future cash flows from the portfolio can therefore be very sensitive to changes in interest rates. The concept of 'duration' is the most popular one for estimating the sensitivity of a cash flow to interest rate changes, and is used in asset-liability management to hedge interest rate risk. For example, for fixed income assets, the Macaulay duration holds that the pricing of a fixed income asset is related to the weighted average time to maturity. Somewhat more sophisticated ideas of duration relate it to the negative of the first derivative of the 'price/yield curve'. Both of these concepts of duration assume that cash flows do not change with interest rates, that yield curves are flat, and only parallel shifts in interest rates. These assumptions are discussed in detail in this book, along with many other concepts and models that analysts and financial engineers need a thorough understanding of in order to be successful in the investment houses, hedge funds, or banks of today. Readers are expected to have some fairly strong mathematical background, especially in the last chapter where the authors discuss the Vasicek model, but to a large degree the mathematics in the book is fairly straightforward. The major minus to the book is the reliance on spreadsheets in the attached CD-ROM. Spreadsheet analysis using EXCEL or some other software (such as SAS) is one item in financial analysis that needs to be put to rest, and fast. 8 of 13 people found the following review helpful. Not worth the price. By Customer There are some formulas, but no explanation how they are arrived at and how they can be applied in practice. I tried to get some sense of it from the VBA programs but the programs are password protected. If you want to learn how to apply the theory in real practice, the following are better alternatives: Advanced modelling by Jackson and Staunton; Implementing derivatives models by Clewlow and Strickland; Analysing interpreting the yield curve by Choudhry. 1 of 4 people found the following review helpful. Interest rate risk modelling. By Jojorup Great textbook with all the basics. More intuitive than John Hull's book, although less comprehensive.

The definitive guide to fixed income valuation and risk analysis The Trilogy in Fixed Income Valuation and Risk Analysis comprehensively covers the most definitive work on interest rate risk, term structure analysis, and credit risk. The first book on interest rate risk modeling examines virtually every well-known IRR model used for pricing and risk analysis of various fixed income securities and their derivatives. The companion CD-ROM contain numerous formulas and programming tools that allow readers to better model risk and value fixed income securities. This comprehensive resource provides readers with the hands-on information and software needed to succeed in this financial arena.

From the Inside Flap The importance of managing interest rate risk cannot be overstated. The explosive growth of interest rate swaps over the last quarter century is a telling sign that financial institutions and other market participants are concerned about the risk interest rates pose. Yet there is no easy way to address this issue. This book; the first of three in the Fixed Income Valuation Course; seeks to improve the current information available on interest rate risk, and upgrade your understanding of how to measure and manage it. Written by fixed income specialists Sanjay Nawalkha, Gloria Soto, and Natalia Beliaeva, Interest Rate Risk Modeling offers a detailed introduction to the various modeling techniques used by today's fixed income professionals. Whether you're measuring the non-parallel durations of a naked call option, adjusting the notional amounts in swaps and caps using the LIBOR market model, or computing the durations of default-prone bonds using the cutting-edge first-passage probability models, this book has what you need to succeed in a volatile interest rate environment. It examines the latest innovations in the area of interest rate risk management and provides a detailed look at the most widely used models in this field, including duration, convexity, M-absolute, M-square, duration vector, key rate durations, principal component durations, and others. Interest Rate Risk Modeling also illustrates the applications of these models to regular bonds, callable bonds, T-Bill futures, T-Bond futures, Eurodollar futures, interest rate swaps, forward rate agreements, bond options, yield options (caps, floors, and collars), swaptions, mortgage-backed securities, and default-prone coupon bonds. Accompanying the authors' in-depth insights and practical advice found within these pages is an information-packed CD-ROM that can show a term structure "movie" or estimate yield curves in seconds, in addition to solving the advanced risk management models. This electronic companion contains Excel/VBA spreadsheets for hands-on analysis, using various models presented in the book. Through a user-friendly format, these spreadsheets compute non-parallel interest rate risk measures for a variety of interest rate derivatives, and can implement passive portfolio strategies, such as immunization and index replication, or speculative strategies based upon expected yield curve movements. Whether you are a manager of a pension bond fund, a manager of GICs at an insurance company, an analyst at a speculative hedge fund, or a VP at a commercial bank, if you want to excel at measuring and managing interest rate risk, you have to understand how to model it. Interest Rate Risk Modeling can show you how. For more information on the three books in this course, including demo software and special features, please visit www.fixedincomerisk.com. From the Back Cover Praise for Interest Rate Risk Modeling "This first book in

the fixed income valuation course provides a solid, up-to-date introduction to the field of interest rate risk, and covers all bases in leading up to the complex area of fixed-income option models. For the more experienced, this is an excellent guide to the state of the art, and provides models coupled with software to make the practical use of the ideas therein feasible." mdash;Sanjiv Ranjan Das, Co-Editor, Journal of Derivatives, and Associate Professor of Finance, Santa Clara University "The trilogy on the fixed income course is the first one with hands on Excel/VBA software for fixed income professionals. These are terrific books for all fixed income practitioners." mdash;Frank J. Fabozzi, Editor, Journal of Portfolio Management, and Frederick Frank Adjunct Professor of Finance, Yale University . "The authors are commended in expositing the many interest rate risk measures in a coherent way. This book describes the theories, implementations and applications of these measures with clarity and rigor. Further, the software assists students and practitioners alike to learn about them effectively." mdash;Thomas Ho, Co-Author, The Oxford Guide to Financial Modeling, and President, Thomas Ho Company "Not only does the book provide an excellent explanation of interest rate risk models, but the included software is very comprehensive and easy to use. Excel is used as the user interface throughout. It is very easy to change the inputs and recalculate a wide variety of interest rate risk models. With simple menu choices, the student or practitioner can explore many different hedging or speculation strategies. The consistent approach used in the whole trilogy of fixed income books/software is a huge advantage." mdash;Craig Holden, Author, Excel Modeling in Investments, and Associate Professor of Finance, Indiana University , Bloomington "A pedagogical and comprehensive treatment of interest rate dynamics. Extremely helpful to understand the theory and build applications." mdash;Nassim Nicholas Taleb, Author, Dynamic Hedging: Managing Vanilla and Exotic Options, and Fooled by RandomnessAbout the AuthorSanjay K. Nawalkha, PhD, is Associate Professor of Finance at the University of Massachusetts Amherst, where he teaches graduate courses in finance theory and fixed income. He has published extensively in academic and practitioner journals, especially in the areas of fixed income and asset pricing. He is the coeditor of the book Interest Rate Risk Measurement and Management, published by Institutional Investor. Dr. Nawalkha is also the President and founder of Nawalkha and Associates. Gloria M. Soto, PhD, is Professor of Applied Economics and Finance at the University of Murcia, Spain. Dr. Soto has published extensively in both Spanish and international journals in finance, especially in the areas of interest rate risk management and related fixed income topics. She is also a partner at Nawalkha and Associates. Natalia A. Beliaeva holds an MS in computer science (artificial intelligence) and expects to receive her PhD in finance from the University of Massachusetts Amherst in 2005. Ms. Beliaeva's expertise is in the area of applied numerical methods for pricing fixed income derivatives.