BACHELOR of ECONOMICS
International Program

Thammasat University | Thailand

Fixed Income (FN351)

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Introduction to Fixed Income

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Road map/Key ideas

- What
- Who
- How

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What

- Fixed income securities refer to securities that promised a fixed stream of cash flows in the future, and/or variable cash flows directly related to interest rates
- Prices of fixed income securities are directly related to interest rates
- Fixed cash flows: Bonds
- Variable cash flows: Floating rate mortgages

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What

- Some fixed income securities
  - Treasury securities
  - Corporate bonds
  - Municipal bonds
  - Other structured securities and derivatives
    - Mortgage-backed securities: Mortgage pass through, CMO (Collateralized Mortgage Obligation)
    - Interest rate derivatives: Cap and floors

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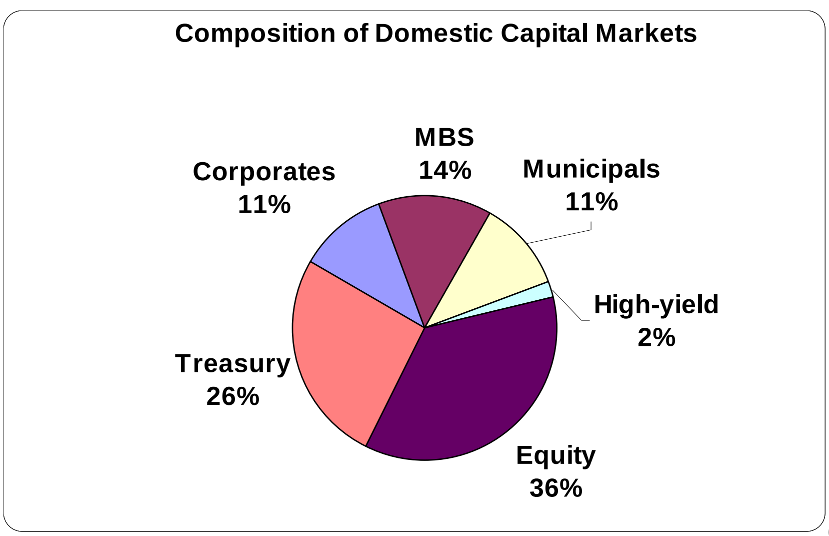
What: How large is the fixed income market?



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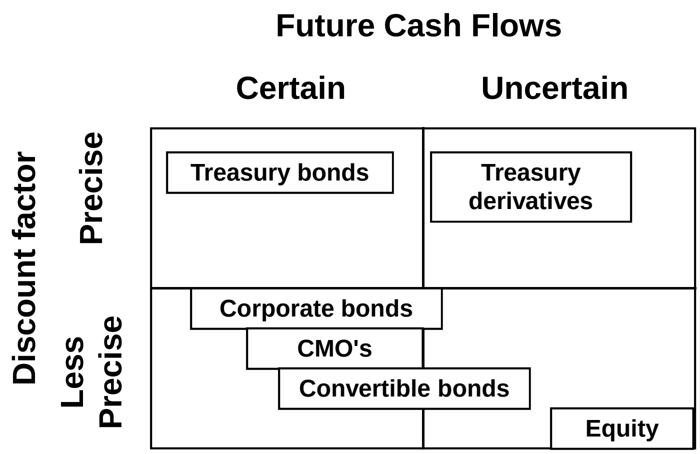
What



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Who

- Issuers
  - Governments and their agencies; Corporations; Commercial banks; States and municipalities; Foreign institutions
- Investors
  - Governments; Pension funds; Insurance companies; Mutual funds; Commercial banks; Foreign institutions; Households; Corporations
- Financial intermediaries
  - Primary dealers; Other dealers; Investment banks; Credit rating agencies; Credit and liquidity enhancers

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How? Generic issues in fixed income markets

- Characteristics of a security
- Valuation
- Portfolio management
- Risk management
- Structuring securities
- Tax treatment/regulation

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Why you should learn fixed income markets?

- **If you are an individual investor**, you will at some point invest in fixed income securities as you diversify your portfolio
- **If you work as CFO** you need to know how to invest your cash flow. Need to know why credit rating for your company is important? what affects your credit rating? and what should be the issue price of your corporate bonds?
- **If you are managing money** for an insurance portfolio, a fund, or a trust fund, or you trade, analyze, research, work in investment banking related to fixed income securities, the need is obvious.
- **If your work relates to real estate**, you need to know the effect of interest rate changes on future cash flows and how to hedge interest rate risks.

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