CQF 2009
Module 4.2
Live Lecture: April 1, 2009
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Stochastic Interest Rate Modeling

In this lecture:

- Stochastic models for interest rates
- How to derive the pricing equation for many fixed-income products
- The structure of many popular one-factor interest rate models
- The theoretical framework for multi-factor interest rate modeling
- Popular two-factor models

By the end of this lecture, you will:

- Be able to derive the pricing equation for fixed-income instruments with one and two random factors
- Appreciate the meaning of the market price of interest rate risk
- Know the names of many popular interest rate models

Summary

- Interest rates can be modeled as stochastic variables
- Whenever a modeled quantity is not traded the pricing equation contains a market price of risk term
- The pricing equation is another partial differential equation, similar in form to the Black-Scholes equation