**Market Risk**

Equities: price fluctuation -> volatility

FI (G7) -> Interest Rate

Credit -> Credit Rist / Default

Foreign Exchange (FX): Two Interest Rates

Commodities: Seasonality

Mortgage Backed Security: Pre-Payment

Emerging Markets: Political Risk

**Credit Risk**

Default

Default of Counterparties

* Every bank has these deals with another bank, if that bank goes under you’re in trouble

Df (0, 1M) = 1 / (1 + (0.12/100)\*(1/12)) = 1 / (1.0001) = 0.9999

We do .12 / 100 because .12 is 12 basis points, not 12%, and a basis point is .01%

1/12 is because there are 12 months in a ear

Df (0, 2M) = 1 / (1 + (0.12/100)\*(1/6)) = 1 / (1.0002) = 0.9998

Using 360 day count

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Swap rate = 50 bps, 0.005

PVfixed = PVfloat

Fixed = 1 – df(0, 24)

Fixed = sum(1->4) of (.5/100)\*(1/2)\*(.9987 + .9967 + .9947 + df(0, 24)) = 1 – df(0, 24)

Fixed = 0.0025 \* 3