2 Way Application of Valuation Model - concepts to review

August 25, 2024 1:00 AM

1. Review and think about this:
    a. For a given valuation model (think back the 2 models covered in week1: bond valuation & equity forward valuation)
    b. What is the model inputs and what is the model output
    c. The major categories of the model inputs (contractual economics vs. market data)
    d. How do we determine the appropriate market data to use?
    e. What assumptions do we have on these market data?
    f. What limitations do we have on these market data?
2. Yield Curve
    a. LIBOR
    b. LIBOR phase-out: (please read https://www.forbes.com/advisor/investing/what-is-libor/ and further research on this topic)
    c. Yield curve as model input
    d. How is yield curve observed and determined
3. Money Market Instruments
    a. Cash Equivalents
        i. Treasury bills
        ii. Repo
    b. Interest rate futures
    c. Interest rate swaps (vanilla swaps)
4. Construction of a yield curve
    a. Bootstrapping introduction
    b. Risk consideration - think about this: if two banks enters into 2 IRS, one swaps daily and the other swaps every 3 months; do you consider these 2 IRS have the same risk?
    c. Multi-curve framework
5. Discussion: Observed prices vs. modeled prices