

## **COURSEWORK**

**MODULE:** Fixed Income Investment

**Submission Date/Hour:** May, 13<sup>th</sup>, 2013 (5 pm GMT)

STUDENT NAME \_\_\_\_\_

STUDENT NUMBER \_\_\_\_\_

### **Number of words**

Your paper needs to have a maximum of 1,000 words, including footnotes.

### **Describe how Credit Default Swaps (CDS) are valued and how these products have been used to manage corporate risks”**

In your report you are expected to present a critical review on the economic value, pricing, risk management and perceived negative views experienced by this market over the period since 2007. In addition you are required to discuss the regulatory framework to be or already introduced.

**The report will be marked under the following criteria:**

**1)** Outline of the development of this market and the structure of common CDS products used by some large institutions. Describe innovations in basket CDS products and show how these products provide economic benefits to the users.

**[30 marks]**

**2)** Critical review of the financial structure and pricing of a CDS. You should discuss the probability model or the No-arbitrage model. Additionally you should apply one of the models in a real CDS (e.g. collected from Bloomberg or similar sources).

**[50 marks]**

**3)** Report writing skills.

**[20 marks]**

## **Guidelines**

- Answer all questions adopting a professional approach to this work. Present your review in a report format.
- Your report should be produced in word. Excel spreadsheets should be used for all calculations where necessary.
- Any relevant information related to the application of a particular derivative product should include fully referenced paragraphs of any related work done by other authors (i.e. in journal articles and specialist textbooks, etc), description of derivative products and mechanisms of how the security will achieve a desired result in a structured finance application.
- Your analysis should demonstrate an understanding of the underlying theory, its assumptions and limitations in an applied context.
- The coursework will be graded to reflect an understanding of historical developments and concepts, ability to gather relevant data and/or information and to carry out an in-depth analysis, as may be appropriate in the context of your report. Detailed coverage of the both theory and practice of financial derivative products is required. You will also be judged on your ability to make sound business and quantitative financial decisions.
- You may want to also highlight any source of conflict that may be apparent between theory and application in practice.
- The report produced must be accurate, well presented and referenced. You need to demonstrate wide reading and coverage of the subject area being examined.

**End of paper**