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Abstract

The recent developmer ng, has dramatically altered the traditional logic used by financial decision-makers to assess the risk-return characteristics of a wide variety of investment assets and led to the emergence of the new profession of financial engineer. An effect of the application of recent discoveries in mathematics and computer science to the analysis of financial markets, financial engineering is based on the assumption of an interconnected financial universe composed of three fundamental building blocks: cash flows, the corresponding probability distributions, and payment dates. Using the techniques of financial engineering, the financial engineer/financial decision-maker can reduce even the most complex policy issues of concern, such as capital budgeting, asset allocation and investment management, arbitrage, hedging and financial risk management, to a portfolio composed of these three basic components.

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