Financial instruments

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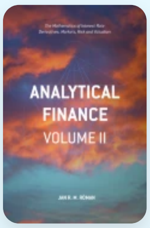

Analytical Finance: Volume II

Jan R. M. Röman

Abstract

In the previous book, we studied derivatives in the equity markets and in this book, we will study the available instruments in the interest rate markets. First, we will shortly group the various instruments. In order to group the wide variety of instruments that exist adequately, it is necessary to break the interest rate asset classes into two subdivisions: *long-term* and *short-term* debts. In addition, it is necessary to divide the derivatives into two groups: *standard derivatives* and *over-the-counter* (OTC) *derivatives*.

Notes

1. Some exchanges use monthly settlement, for example, Nasdaq-OMX in Stockholm.

2. Since the financial crisis in 2008, this is not really true, since some currencies are more risky than others. Therefore, we have to add, a so-called cross currency basis spread to the discount function. This basis spread is set against the most liquid currency in a trade. Only USD will have a zero basis spread. We will discuss that later. But now we think about the discount function as generic.

3. Swedish bonds are quoted in yield (to maturity).

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