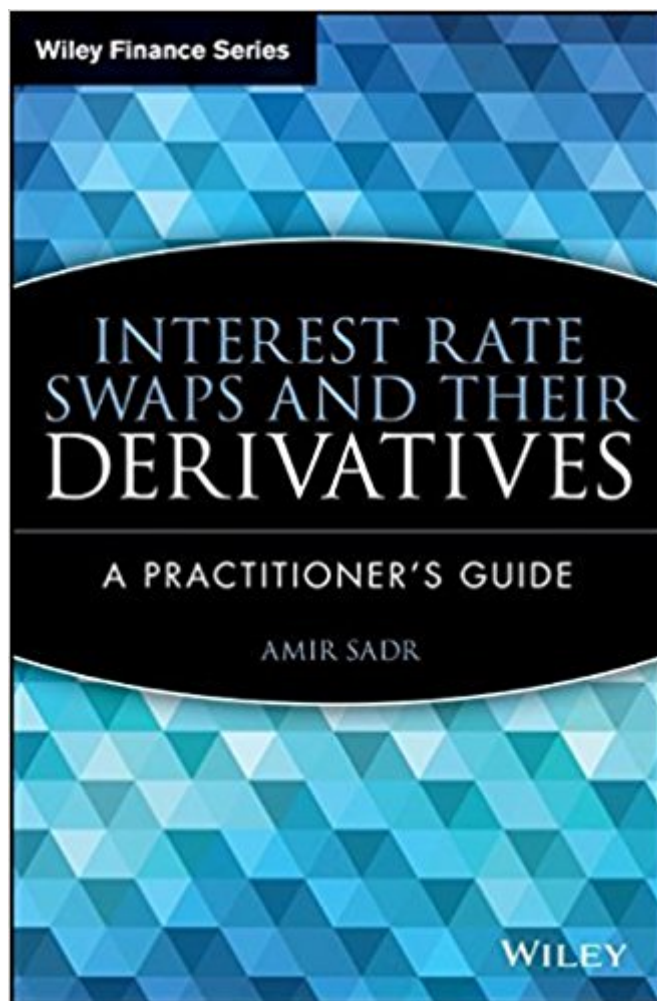


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Interest Rate Swaps And Their Derivatives: A Practitioner's Guide



Synopsis

An up-to-date look at the evolution of interest rate swaps and derivatives Interest Rate Swaps and Derivatives bridges the gap between the theory of these instruments and their actual use in day-to-day life. This comprehensive guide covers the main "rates" products, including swaps, options (cap/floors, swaptions), CMS products, and Bermudan callables. It also covers the main valuation techniques for the exotics/structured-notes area, which remains one of the most challenging parts of the market. Provides a balance of relevant theory and real-world trading instruments for rate swaps and swap derivatives Uses simple settings and illustrations to reveal key results Written by an experienced trader who has worked with swaps, options, and exotics With this book, author Amir Sadr shares his valuable insights with practitioners in the field of interest rate derivatives-from traders and marketers to those in operations.

Book Information

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Customer Reviews

Interest rate swaps and their derivatives have become an integral part of the fixed income market, but many of the pricing and risk management issues for these now mainstream products can only be learned on a trading floor. While there are many books on fixed income and interest rate derivatives, they generally suffer from being either too elementary and bond-centric, mentioning swaps in passing, or too technical and focused on exotics and the myriad implementation issues and algorithms used to tackle them. Rather than focusing on exotics, Interest Rate Swaps and Their Derivatives thoroughly covers the mainstream products—swaps, flow options, Bermudans, semi-exotics—showing the common pricing techniques while also explaining how to

generalize the concepts to more nuanced products. Author Amir Sadr, experienced as a quant, trader, financial software developer, and academic in the fixed income field, begins by presenting plain-vanilla swaps as an extension of fixed rate bonds – revealing how techniques for pricing these instruments are a generalization of similar methods used for pricing bonds and repos, and for the most part involve the concepts of financing cost, discount factors, and projection of forward curves. He then moves on to cover the options markets for flow products, including options on futures, caps and floors, and European swaptions – with detailed attention to the actual trading practice of these products. Sadr explains how, as with any option product, the pricing and risk management of these requires dealing with volatility as the main risk factor – and he shows that one does not need to have a PhD in math to understand options. Sadr presents risk-neutral valuation as the fundamental pricing paradigm for derivatives, and illustrates the core idea of dynamic replication in a simple binomial setting. This unified framework is used to derive industry-standard Black formula for flow products, and is developed into short-rate and full term-structure models for more complex interest rate exotics including Bermudans. For current or aspiring practitioners in interest rate products, *Interest Rate Swaps and Their Derivatives* provides a sound working knowledge and appreciation of the main features of these products and their pricing and risk management issues.

Praise for *Interest Rate Swaps and Their Derivatives* "This is it! I have been looking for a practitioner's guide to interest rate derivatives for over ten years! Most 'new joiners' on Wall Street only gain this knowledge over years of apprenticeship with seasoned professionals. In his book, Amir Sadr explains not only the math behind the products, but the street lingo and, most importantly, the mechanics of everything from overnight repos to Bermudans." – George Nunn, Head of Fixed Income Structuring, Americas, BNP Paribas "Dr. Sadr has produced a single, comprehensive guide to the interest rate swap market. Bank dealers and corporate risk professionals already active in this market will find the book to be one of the best trading floor reference guides out there. Students who want the real-world insights of a seasoned professional will also discover Dr. Sadr's book to be an invaluable resource." – Morris Sachs, Chief Risk Officer, 5:15 Capital

I am not a trader, but I work on trading and risk management systems using rates. I found this book very practical. It covers many topics such as - forward rate curve, par-swap curve, construction of swap curve, basis swaps, model behind rates products, market conventions etc. It is quite focused on practical aspects instead of theory. It is well organized with three parts - first about basics,

second about vanilla swaps and third about exotics. Part two has all about the instruments trading in market and basics behind. I learned a lot of theory from various books. This book gave me practical perspective of IRS products. It is very helpful for someone who wants to understand IRS trading and fundamentals from practical perspective.

Text reference

This is a good book, covers a lot of material. Examples help understanding the concepts better. Unfortunately there are a number of obvious errors in formulas which let one doubt other non-obvious cases as well.

Dr. Sadr distills the complexity of fixed income mathematics to several essential concepts which he conveys clearly and concisely in a conversational tone. While other authors provide similar levels of quantitative detail (Hull, Shreve) few provide the insightful contextualization of the mathematics or the depth of implementation details (day counts, payment frequency, settlement days etc) that Dr. Sadr does. As a practitioner of quantitative finance I have on several occasions pulled out Dr. Sadr's book to inform and improve my models.

"Interest Rate Swaps and Their Derivatives" is a book written by a veteran Wall Street practitioner and an experienced New York University teacher. It offers a practical introduction on how interest-rate based instruments are valued. I have taken Dr. Sadr's class at NYU and this was the course textbook. I can say that this book offers a hands-on approach on how to value IR products. It builds on risk-neutral principles and martingale methodology to lead the student through calibration of interest rate models, including computation of Arrow-Debreu state prices, as well as valuation of a large variety of IR instruments. Flow options that are priced include caps and floors, swaptions, and CMS (constant maturity swap) products. Interest-rate exotics are covered and include for instance Bermudan-style options like cancelable swaps. Each chapter is filled with examples. This is a book for traders and quant apprentices alike. If you live near New York City, taking the NYU class, 8 weekly evening sessions, will take you a long way in covering the book. That is the way I digested the book. I should add that the reader would certainly benefit from having the examples and Excel workbooks available through a web site.

This is finally a good, clear, concise and accurate book. It is very hard to find a book on interest rates

derivatives and this is finally the one. It is very up-to-date and contains a lot of information and improvements that were the results of the recent financial crisis.

It's one of the very few good books one finds in swaps and swaptions. I wish it had cross currency swaps too.

The book is excellent with good balance of math and conceptual common sense. The book shows me the framework for instrument pricing via replication. With it, I can theoretically price any derivatives in the world which is quite powerful idea. A great book for people who want to learn pricing wide ranges of derivative products.

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