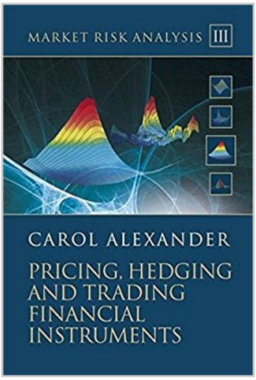

Market Risk Analysis, Pricing, Hedging and Trading Financial Instruments (Volume III)

By Carol Alexander

Market Risk Analysis, Pricing, Hedging and Trading Financial Instruments (Volume III) By Carol Alexander

Written by leading market risk academic, Professor Carol Alexander, Pricing, Hedging and Trading Financial Instruments forms part three of the Market Risk Analysis four volume set. This book is an in-depth, practical and accessible guide to the models that are used for pricing and the strategies that are used for hedging financial instruments, and to the markets in which they trade. It provides a comprehensive, rigorous and accessible introduction to bonds, swaps, futures and forwards and options, including variance swaps, volatility indices and their futures and options, to stochastic volatility models and to modelling the implied and local volatility surfaces.

All together, the Market Risk Analysis four volume set illustrates virtually every concept or formula with a practical, numerical example or a longer, empirical case study. Across all four volumes there are approximately 300 numerical and empirical examples, 400 graphs and figures and 30 case studies many of which are contained in interactive Excel spreadsheets available from the the accompanying CD-ROM . Empirical examples and case studies specific to this volume include:

- Duration-Convexity approximation to bond portfolios, and portfolio immunization;
- Pricing floaters and vanilla, basis and variance swaps;
- Coupon stripping and yield curve fitting;
- Proxy hedging, and hedging international securities and energy futures portfolios;
- Pricing models for European exotics, including barriers, Asians, look-backs, choosers, capped, contingent, power, quanto, compo, exchange, ‘best-of’ and spread options;
- Libor model calibration;
- Dynamic models for implied volatility based on principal component analysis;
- Calibration of stochastic volatility models (Matlab code);
- Simulations from stochastic volatility and jump models;
- Duration, PV01 and volatility invariant cash flow mappings;
- Delta-gamma-theta-vega mappings for options portfolios;
- Volatility beta mapping to volatility indices.

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Editorial Review

From the Inside Flap
Market Risk Analysis is a series of four volumes:

Volume I: *Quantitative Methods in Finance*

Volume II: *Practical Financial Econometrics*

Volume III: *Pricing, Hedging and Trading Financial Instruments*

Volume IV: *Value at Risk Models*.

Although the four volumes are very much interlinked, each containing numerous cross-references to other volumes, they are written as self-contained texts.

Volume I covers the essential mathematical and financial background for subsequent volumes. There are six comprehensive chapters covering all the calculus, linear algebra, probability and statistics, numerical methods and portfolio mathematics that are necessary for market risk analysis. It is a complete and pedagogical introduction to quantitative methods applied to finance.

Volume II provides a detailed understanding of financial econometrics, with a unique focus on applications to asset pricing, fund management and market risk analysis. It covers equity factor models, including a detailed analysis of the Barra model and tracking error, principal component analysis, volatility and correlation, GARCH, cointegration, copulas, Markov switching, quantile regression, discrete choice models, non-linear regression, forecasting and model evaluation.

Volume III has five extensive chapters on the pricing, hedging and trading of bonds and swaps, futures and forwards, options and volatility, and detailed descriptions of mapping portfolios of these financial instruments to their risk factors. There are numerous examples, all coded in interactive Excel spreadsheets, including many pricing formulae for exotic options but excluding the calibration of stochastic volatility models, for which Matlab code is provided.

Volume IV builds on the three previous volumes to provide a comprehensive and detailed treatment of market VaR models. The exposition starts at an elementary level but, as in all the other volumes, the pedagogical approach accompanied by numerous interactive Excel spreadsheets allows readers to experience the application of parametric linear, historical simulation and Monte Carlo VaR models to increasingly complex portfolios. Starting with simple positions, readers are soon applying risk models to large international securities portfolios, commodity futures, path dependent options and much else. This rigorous treatment includes many new results and applications to regulatory and economic capital allocation, measurement of VaR model risk and stress testing.

Each volume is accompanied by a CD-ROM which features numerous interactive Excel spreadsheets that illustrate the vast majority of the problems and case studies in these texts. For further information see the accompanying CD-ROM

From the Back Cover
Written by leading market risk academic, Professor Carol Alexander, *Pricing, Hedging and Trading Financial Instruments* forms part three of the *Market Risk Analysis* four volume set. This book is an in-depth, practical and accessible guide to the models that are used for pricing and the strategies that are used for hedging financial instruments, and to the markets in which they trade. It provides a comprehensive, rigorous and accessible introduction to bonds, swaps, futures and forwards and options, including variance swaps, volatility indices and their futures and options, to stochastic volatility models and to modelling the implied and local volatility surfaces.

All together, the MARKET RISK ANALYSIS four volume set illustrates virtually every concept or formula with a practical, numerical example or a longer, empirical case study. Across all four volumes there are approximately 300 numerical and empirical examples, 400 graphs and figures 30 case studies many of which are contained in interactive Excel spreadsheets available from the accompanying CD-ROM. In this volume alone there are over 200 spreadsheets in 25 workbooks. Here are just some of he illustrative empirical examples and case studies in this volume:

- Duration-Convexity approximation to bond portfolios, and portfolio immunization;
- Pricing floaters and vanilla, basis and variance swaps;
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About the Author
Carol Alexander is a Professor of Risk Management at the ICMA Centre, University of Reading, and Chair of the Academic Advisory Council of the Professional Risk Manager’s International Association (PRMIA). She is the author of *Market Models: A Guide to Financial Data Analysis*(John Wiley & Sons Ltd, 2001) and has been editor and contributor of a very large number of books in finance and mathematics, including the multi-volume *Professional Risk Manager’s Handbook*(McGraw-Hill, 2008 and PRMIA Publications). Carol has published nearly 100 academic journal articles, book chapters and books, the majority of which focus on financial risk management and mathematical finance. Professor Alexander is one of the world’s leading authorities on market risk analysis. For further details, see www.icmacentre.rdg.ac.uk/alexander

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