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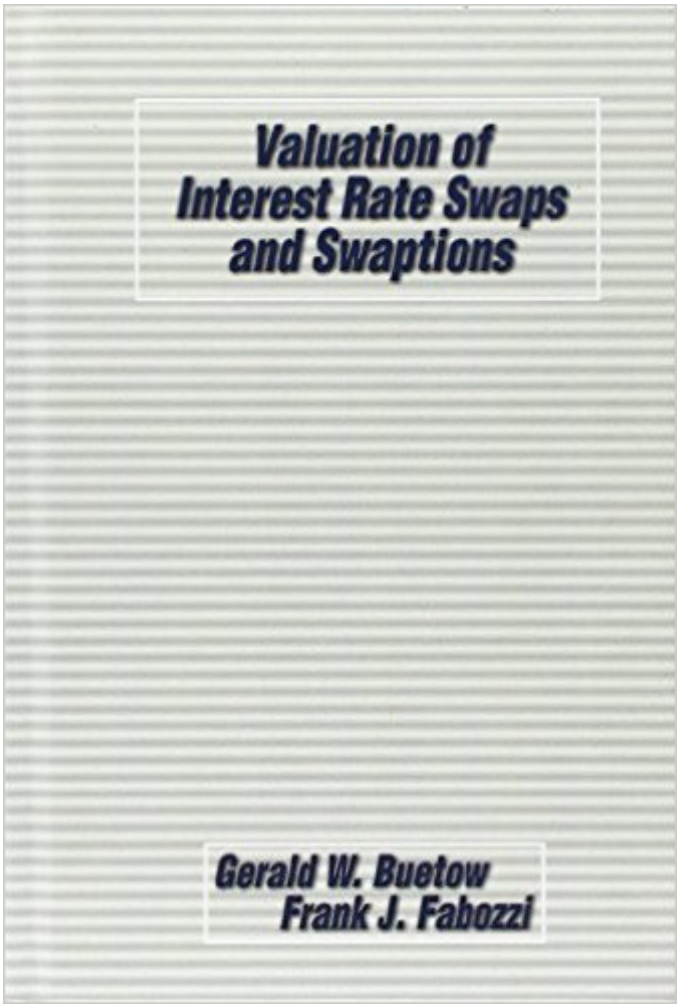
Valuation Of Interest Rate Swaps And Swaptions



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Synopsis

Among the major innovations in the financial markets have been interest rate swaps and swapations, instruments which entail having an arrangement to barter differently structured payment flows for a particular period of time. These instruments have furnished portfolio and risk managers and corporate treasurers with a better tool for controlling interest rate risk. Valuation of Interest Rate Swaps and Swapations explains how interest rate swaps are valued and the factors that affect their value-an ideal way to manage interest or income payments. Various valuations approaches and models are covered, with special end-of-chapter questions and solutions included.

Book Information

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Customer Reviews

Like all other Fabozzi books this one also just scratches the surface of the topic (swap and swaptions) with text book style examples which are not seen in real world. He starts with an example where both the fixed and floating leg of a swap is semiannual and actual/360 which is not the case of US Swaps and nowhere through out the book he discusses how to deal with different day counts (30/360 & actual/360) in the fixed and floating legs as well as different payment styles (semianually for fixed and quarterly for floating). Anyone who is trying to build a swap valuation tool will realize the importance of the above meniotned topics which is not covered in this book. Even a slight change in numbers can change the P&L by several hundred thousand dollars as the notional are generally upwards of 100 million. This book may be good for an undergrad student who is taking the first course in finance and trying to understand what a swap is. But even then it will facilitate only an abstract theoretical knowledge which he/she will never be able to relate to in real world swaps.

Avoid this book, it’s a waste of your hard earned money.

I dont work for a trading desk, but work for IT that supports the trading desk and needed to understand the workings of swap pricing etc. This book gives a very clear explanation of how to price a swap at inception and through the life of the swap agreement. It ties all together volatility, swap curve/term structure of interest rates etc. If you were looking for a more detailed explanation and are actually going to be trading swaps then this is probably not the book.

Relying solely on literature and books , with input by experienced traders to implement derivative pricing models.My part of the world, quants that are involved in the development of pricing libraries from the ground up are very,very rare or non-existent. Usually the banks will just purchase black boxes and do a high level validation on it.If the reader is interested in the latest techniques, then this book is not for you.If it is to get simple, explicit examples on how trees are used to price Interest Rate Derivatives ie swaptions/variations on IRS, then it is extremely suitable. It serves as a base template and the knowledge base gained can easily be build upon to move forward towards callable range accruals/effect of skew etc..For those that do not have the benefit of past legacies, this is a great starter for tree pricing methods.For example use this book after the tree is constructed as per Hull-White’s "Super Calibration" paper.Do note that tree pricing methods are quite limited in scope, there are other methods ie PDE, LMM etc.

I trade derivatives, and this book was amazing to get me started in the valuation of IRS and swaptions. It provides very clear steps used to value an IRS from a sting of libor futures. It describes the swaption valuation with an introduction to binomial trees in a very simmple manner. Everything is explained very clearly and takes you through the math step by step. I own more than 10 books that describe the valuation of an IRS and by far this is the best.

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