## CONTENTS

Preface vii
Fifth Edition Changes vii
Ready-To-Build Spreadsheets vii
What is Unique about this Bookxi
Conventions Used in this Book xii
Craig's Challengexiv
Excel Modeling Booksxiv
Suggestions for Faculty Membersxiv
Acknowledgmentsxv
About The Author xvi
PART 1 BONDS / FIXED INCOME
SECURITIES1
Chapter 1 Bond Pricing1
1.1 Annual Payments
1.2 EAR, APR, and Foreign Currencies2
1.3 Duration and Convexity
1.4 Price Sensitivity9
1.5 Immunization11
1.6 System of Five Bond Variables17
Problems18
Chapter 2 The Yield Curve21
2.1 Obtaining It From Treasury Bills and Strips
2.2 Using It To Price A Coupon Bond22
2.3 Using It To Determine Forward Rates23
Problems
Chapter 3 Affine Yield Curve Models25
3.1 U.S. Yield Curve Dynamics25
3.2 The Vasicek Model
3.3 The Cox-Ingersoll-Ross Model
Problems
PART 2 PORTFOLIO MANAGEMENT
Chapter 4 Portfolio Optimization35
4.1 Two Risky Assets and a Risk-free Asset
4.2 Descriptive Statistics
4.3 Many Risky Assets and a Risk-free Asset42
4.4 Any Number of Risky Assets
Problems
Chapter 5 Constrained Portfolio Optimization
5.1 No Short Sales, No Borrowing, and Other Constraints
5.2 Any Number of Risky Assets68
Problems77
Chapter 6 Portfolio Performance
6.1 Evaluation Measures78
Problems

Chapter 7 Portfolio Diversification Lowers Risk	
7.1 Basics	
7.2 International	
Problems	
PART 3 SECURITY ANALYSIS	85
Chapter 8 Stock Valuation	85
8.1 Dividend Discount Model	
Problems	
Chapter 9 Du Pont System Of Ratio Analysis	87
9.1 Basics	
Problems	
PART 4 STOCKS	89
Chapter 10 Asset Pricing	89
10.1 Static CAPM Using Fama-MacBeth Method	
10.2 APT or Intertemporal CAPM Using Fama-MacBeth Method	
Problems	
Chapter 11 Market Microstructure	100
11.1 National Best Bid and Offer (NBBO)	
11.2 Transaction Cost By Exchange Using TAQ Data	
11.3 Limit Order Book Vs. Call Market	
11.4 Transaction Cost Measures	108
11.5 Transaction Cost Components	
11.6 Probability of Informed Trading (PIN)	111
Problems	
Chapter 12 Life-Cycle Financial Planning	114
12.1 Taxable Vs. Traditional vs. Roth Savings	114
12.2 Basic Life-Cycle Planning	
12.3 Full-Scale Life-Cycle Planning	118
Problems	125
PART 5 INTERNATIONAL	
INVESTMENTS	.126
Chapter 13 International Parity	126
13.1 System of Four Parity Conditions	
13.2 Estimating Future Exchange Rates	
Problems	
Chapter 14 Swaps	130
14.1 Valuation of Interest Rate Swaps	130
14.2 Valuation of Currency Swaps	
Problems	
PART 6 OPTIONS, FUTURES, AND	
<b>OTHER DERIVATIVES</b>	.135
Chapter 15 Option Payoffs and Profits	
15.1 Basics	
Problems	

Chapter 16 Option Trading Strategies	
16.1 Two Assets	137
16.2 Four Assets	140
Problems	
Chapter 17 Put-Call Parity	
17.1 Pasies	
17.1 Basics	
17.2 Payoff Diagram	
Problems	
Chapter 18 Binomial Option Pricing	
18.1 Estimating Volatility	149
18.2 Single Period	150
18.3 Multi-Period	
18.4 Risk Neutral	157
18.5 Average of N and N-1	160
18.6 Convergence to Normal	162
18.7 American with Discrete Dividends	
18.8 Full-Scale	
Problems	
Chapter 19 Black-Scholes Option Pricing	175
19.1 Basics	
19.2 Continuous Dividend	
19.3 Greeks	
19.4 Daily Delta Hedging	
19.5 Trading Strategies Over Any Horizon	
19.6 Implied Volatility	
19.7 Exotic Options	
Problems	
Chapter 20 Futures	
20.1 Spot-Futures Parity (Cost of Carry)	
20.1 Spot-Futures Farity (Cost of Carry)	
Problems	
Chapter 21 Pricing By Simulation	
21.1 Path-Independent Derivatives	
21.2 Path-Independent Derivatives with Jumps	
21.3 Path-Independent Derivatives with Stratified Sampling	
21.4 Path-Dependent Derivatives	
21.5 Path-Dependent Derivatives with Jumps	
Problems	
Chapter 22 Corporate Bonds	
22.1 Two Methods	
22.2 Impact of Risk	
Problems	
PART 7 EXCEL SKILLS	217
Chapter 23 Useful Excel Tricks	217
22 1 Outably Dalate The Instruction Davas and Annows	······································
23.1 Quickly Delete The Instruction Boxes and Arrows	
23.2 Freeze Panes	
23.3 Spin Buttons and the Developer Tab	·····210 210
23.4 Option Buttons and Group Boxes 23.5 Scroll Bar	
23.5 Scroll Bar 23.6 Install Solver or the Analysis ToolPak	
23.6 Install Solver or the Analysis ToolPak 23.7 Format Painter	
23./ FOrmat Famer	

 23.8 Conditional Formatting
 223

 23.9 Fill Handle
 224

 23.10 2-D Scatter Chart
 224

 23.11 3-D Surface Chart
 226