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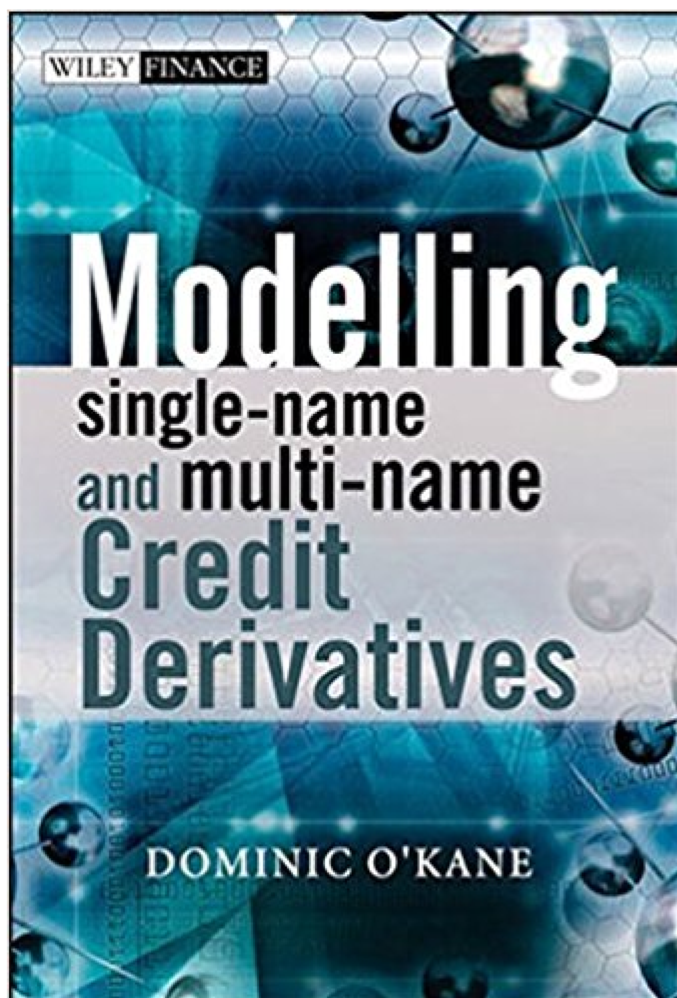
Modelling Single-name And Multi-name Credit Derivatives



Synopsis

Modelling Single-name and Multi-name Credit Derivatives presents an up-to-date, comprehensive, accessible and practical guide to the pricing and risk-management of credit derivatives. It is both a detailed introduction to credit derivative modelling and a reference for those who are already practitioners. This book is up-to-date as it covers many of the important developments which have occurred in the credit derivatives market in the past 4-5 years. These include the arrival of the CDS portfolio indices and all of the products based on these indices. In terms of models, this book covers the challenge of modelling single-tranche CDOs in the presence of the correlation skew, as well as the pricing and risk of more recent products such as constant maturity CDS, portfolio swaptions, CDO squareds, credit CPPI and credit CPDOs.

Book Information

Hardcover: 514 pages

Publisher: Wiley; 1 edition (August 4, 2008)

Language: English

ISBN-10: 0470519282

ISBN-13: 978-0470519288

Product Dimensions: 6.8 x 1.3 x 9.8 inches

Shipping Weight: 2.5 pounds (View shipping rates and policies)

Average Customer Review: 4.6 out of 5 stars   6 customer reviews

Best Sellers Rank: #300,681 in Books (See Top 100 in Books)   #94 inÃ Â Books > Business & Money > Insurance > Risk Management   #539 inÃ Â Books > Textbooks > Business & Finance > Finance   #2016 inÃ Â Books > Business & Money > Finance

Customer Reviews

Ã¢â ¬Å“This book provides a unique, in-depth and comprehensive analysis of the modelling issues faced by credit modellers in the credit derivatives market.Ã¢â ¬Â• Ã¢â ¬â •Frank J. Fabozzi, PhD, CFA, Professor in the Practice of Finance, Yale School of Management Dominic O’Kane’s many years of practical experience in credit derivative markets are evident everywhere in this well-rounded, lucid, and informative book. The author does an admirable job of covering both basic and advanced topics, throughout emphasizing substance over technicalities. The product coverage of the text is extensive, with virtually all practically relevant credit derivatives carefully described and analyzed. Both beginners and seasoned pros can learn from OÃ¢â ¬â„¢KaneÃ¢â ¬â„¢s insights and his book deserves a wide readership. Highly recommended.Ã¢â ¬Â• Ã¢â ¬â •Leif Andersen,

Head of Quantitative Research, Banc of America Securities

Modelling Single-name and Multi-name Credit Derivatives presents an up-to-date, comprehensive, accessible and practical guide to the pricing and risk-management of credit derivatives. It is both a detailed introduction to credit derivative modelling and a reference for those who are already practitioners. This book is up-to-date as it covers many of the important developments which have occurred in the credit derivatives market in the past 4-5 years. These include the arrival of the CDS portfolio indices and all of the products based on these indices. In terms of models, this book covers the challenge of modelling single-tranche CDOs in the presence of the correlation skew, as well as the pricing and risk of more recent products such as constant maturity CDS, portfolio swaptions, CDO squareds, credit CPPI and credit CPDOs. Divided into two parts, part one of this book covers single-name credit derivatives. Reflecting its importance as the building block for most other credit derivatives, the mechanics of the credit default swap (CDS) are covered in considerable detail. A chapter is then devoted to the risk-management of CDS. The pricing and risk-management of forward starting CDS, the option on a CDS and constant maturity CDS are then covered. Part two of the book covers multi-name products and begins with the CDS index. The mechanics and pricing of the CDS index are set out in detail. A chapter on the pricing of options on the CDS index follows. Much of part two of the book is then devoted to the pricing and risk-management of single tranche CDOs. After discussing the Gaussian copula model and the numerical challenge of building the portfolio loss distribution, several chapters are devoted to the subject of modelling the correlation skew. This includes a detailed discussion of base correlation, copula-based skew models and dynamic correlation modelling. Practical and accessible, Modelling Single-name and Multi-name Credit Derivatives does not assume any previous knowledge of credit derivatives. Products are explained in detail as are the requirements of any pricing model. While the book is undoubtedly mathematical, the emphasis is on building intuition, especially regarding the risk sensitivities of the product. Issues such as model requirements, model calibration and stability are addressed. Attention is paid to the need for optimising the computationally efficiency of the implementation, and detailed algorithms are presented which are simple for the reader to convert into their preferred programming language.

The author’s(O’Kane) exposition of the subject matter is lucid and very well structured.There is a good balance between theory and the practical aspects in the subject matter.Usually, there is a divergence between theory and practice, but O’Kane addresses these divergences well i.e.

MTM,risk management & hedging of CDS contracts (and its variations)O’Kane successully simplifies the complex into the simple with clear, concise language in a structured, logical manner without bombarding the reader with complicated mathematical proof/ambiguous logical arguments i.e. why a one-factor latent variable model is insufficient to model the correlation structure of an n-name portfolio etc..I believe the dilligent reader can eventually develop his/her own intuition and can understand the logic behind the structure of the equationsBefore graduating to the current literature of credit derivatives, this book provides a very strong foundation to build upon.Personally, I prefer O’Kane’s pedagogical style/treatment of the subject matter (credit derivatives) over Hull/White’s treatment in their classic "Options, Futures and Other Derivatives"This book has given me a better, clearer and more structured understanding of credit derivatives in general.Hopefully O’Kane can write a book along similar lines for the other asset classes ie interest rate/fx.

The book strikes a perfect balance between theory and practice, and is the most comprehensive guide of the field written so far. Highly recommend to anyone who wants to get understanding of the credit products for trading or modeling.

Part I is very good. All the materials are carefully selected and presented. Part II seems a bit ad-hoc.

Despite the huge size of the credit derivatives market, there is a dearth of books about Credit Default Swaps (CDS) and related products. Most of those that exist either are not very detailed or not very clearly written, or both.O’Kane’s book remedies this situation. The book starts with a helpful discussion of fixed income products in general and then proceeds to outline techniques for pricing CDS, CDS Swaptions and Credit Correlation products.In my view, the author writes very clearly. Some of the most helpful features of the book are:1. Derivation of key results in detail.2. Frequent use of examples (although it would be possible to improve the discussion and presentation of some of the examples).3. Inclusion of detailed product information (e.g. upfront CDS payments, CDS payments between coupon dates etc).4. Provision of both accurate prices and useful approximations, with associated discussion of when each should be used.5. Provision of algorithms used to calibrate market inputs (e.g. CDS curves), although some more detailed examples (possibly online rather than in the book itself) would have been helpful here.I have also read several of the author’s published articles with Lehman Brothers. The book is much better than these, in my view, as it is written more clearly and pedagogically (e.g. it does not skip intermediate results as much as

the articles).Someone with no prior experience with credit derivatives should be able to learn a great deal from this book. However, the book is fairly comprehensive; therefore, even those with experience with such products will likely be able to gain from the author's knowledge of theoretical concepts and practical market-driven issues.

It's hard to find a book on CDSs that is both clearly-written and comprehensive. This is the only book that I have found that actually does both of these. It is clear that O'Kane has a lot of experience dealing with CDSs, and you can actually learn how to apply the techniques he discusses in the text. As the name suggests, this book is separated into single-name and multi-name CDSs. There is a comprehensive discussion of each. This is timely as the growth of the multi-name CDS market has grown to match the single-name CDS market. Hopefully, there would an updated edition of this book that discusses developments in the CDS market post-2008.

This is the most complete and mathmatically rigorous treatment of any of the dozens of books out there on credit derivatives. The math is graduate level, but doesn't inhibit a determined read for the underlying concepts. Only quibble is that the author sometimes gets lost in the academic treatment of various correlation models and loses a reader more focused on practical market applications. Overall, this should be required reading for anyone interested in credit derivatives.

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