FINANCIAL MATHEMATICS

The Financial Mathematics program aims to equip graduates with the engineering-driven approaches widely used to construct and deploy the financial transactions and processes that, in their context, function as the international financial system and the capital markets. These are the mechanisms enabling the creation/employment of wealth and for the worldwide distribution of well-being within the constraints and intent of global financial policy.

This program is only offered online.

Program Committee

David Audley, Program Chair
Senior Lecturer
JHU Whiting School of Engineering

Programs

- Financial Mathematics, Master of Science (https://e-catalogue.jhu.edu/engineering/engineering-professionals/financial-mathematics/financial-mathematics-master-science/)
- Financial Risk Management, Graduate Certificate (https://e-catalogue.jhu.edu/engineering/engineering-professionals/financial-mathematics/financial-risk-management-graduate-certificate/)
- Quantitative Portfolio Management, Graduate Certificate (https://e-catalogue.jhu.edu/engineering/engineering-professionals/financial-mathematics/quantitative-portfolio-management-graduate-certificate/)
- Securitization, Graduate Certificate (https://e-catalogue.jhu.edu/engineering/engineering-professionals/financial-mathematics/securitization-graduate-certificate/)

Courses

EN.555.627. Stochastic Processes and Applications to Finance. 3 Credits.
A development of stochastic processes with substantial emphasis on the processes, concepts, and methods useful in mathematical finance. Relevant concepts from probability theory, particularly conditional probability and conditional expection, will be briefly reviewed. Important concepts in stochastic processes will be introduced in the simpler setting of discrete-time processes, including random walks, Markov chains, and discrete-time martingales, then used to motivate more advanced material. Most of the course will concentrate on continuous-time stochastic processes, particularly martingales, Brownian motion, diffusions, and basic tools of stochastic calculus. Examples will focus on applications in finance, economics, business, and actuarial science.

EN.555.642. Investment Science. 3 Credits.
This is the key introductory course for the financial mathematics program and introduces the major topics of investment finance. The investment universe, its context of markets, and the flow of global capital are introduced. Details of equities, interest, bonds, commodities, forwards, futures, and derivatives are introduced to varying degree. The concepts of deterministic cash flow stream, valuation, term structure theories, risk, and single- and multi-period random cash flows are presented. Here the neoclassical theory of finance is introduced including the topics of efficient markets, the risk-return twins leading to the mean variance Capital Asset Pricing Model (CAPM), the efficient frontier, the intertemporal models, and Arbitrage Pricing Theory (APT). Some introductory models of asset dynamics (including the binomial model), basic options theory, and elements of hedging are also included in this course. Course Note(s): This course is the same as EN.553.642 offered by through the full-time Applied Mathematics & Statistics department for the residence Master of Science in Engineering in Financial Mathematics.

EN.555.644. Introduction to Financial Derivatives. 3 Credits.
This is the first of a two-course sequence devoted to the mathematical modeling of securities and the markets in which they are created and exchanged. The basic cash, hybrid, and derivative instruments are reviewed and set in a rigorous mathematical context. This includes equities, bonds, options, forwards, futures, and swaps, as well as their dealer, overthe-counter, and exchange environment. Models of the term structure of interest rates, spot rates and, the forward rate curve are treated; derived from cash instruments (e.g., bonds and interest rates like LIBOR) as well as from derivatives (such as Eurodollar futures and swaps). Principles of static, discrete, continuous and dynamic probabilistic models for derivative analysis (including the Weiner process, Ito's Lemma, and an introduction to risk-neutral valuation) are applied to develop the binomial tree approach to option valuation, the Black-ScholesMerton differential equation, and the Black-Scholes formulas for option pricing. Course Note(s): This course is the same as EN.553.644 offered by through the full-time Applied Mathematics & Statistics department for the residence Master of Science in Engineering in Financial Mathematics.

EN.555.645. Interest Rate and Credit Derivatives. 3 Credits.
This is the second of a two-course sequence devoted to the mathematical modeling of securities and the markets in which they are created and exchanged. Focus turns to interest rate derivatives and the credit markets. The martingale approach to risk-neutral valuation is covered, followed by interest rate derivatives and models of the short rate process (including Heath, Jarrow & Morton and the Libor Market Model); analysis of bonds with embedded options and other interest rate derivatives (e.g., caps, floors, swaptions). Credit risk and credit derivatives, including copula models of time to default, credit default swaps, and a brief introduction to collateralized debt obligations will be covered. A major component of this course is computational methods. This includes data and time series analysis (e.g., estimation of volatilities), developing binomial and trinomial lattices and derivative analysis schemes, and numerical approaches to solving the partial differential equations of derivatives. Course Note(s): This course is the same as EN.553.645 offered through the full-time Applied Mathematics & Statistics department for the residence Master of Science in Engineering in Financial Mathematics.
Prerequisite(s): EN.555.644 Introduction to Financial Derivatives

EN.555.646. Financial Risk Management and Measurement. 3 Credits.
This course applies advanced mathematical techniques to the measurement, analysis, and management of risk. The focus is on financial risk. Sources of risk for financial instruments (e.g., market risk, interest rate risk, credit risk) are analyzed; models for these risk factors are studied and the limitation, shortcomings, and compensatory techniques are addressed. Throughout the course, the environment for risk is considered, be it regulatory or social (e.g., Basel capital accords). A major component of the course are the Value at Risk (VaR) and Conditional VaR measures for market risk in trading operations, including approaches for calculating and aggregating VaR, testing VaR, VaR-driven capital for market risk, and limitations of the VaR-based approach. Asset Liability Management (ALM), where liquidity risk as well as market risk can affect the balance sheet, is analyzed. Here, models for interest rate, spread, and volatility risks are applied to quantify this exposure. Another major component of the course is credit risk. Sources of credit risk, how measured risk is used to manage exposure, credit derivatives, techniques for measuring default exposure for a single facility (including discriminant analysis and Mertonbased simulation), portfolio risk aggregation approaches (including covariance, actuarial, Merton-based simulation, macro-economic default model, and the macro-economic cashflow model - for structured and project finance). Finally, there is a brief introduction to concepts and tools that remain valid for large and extreme price moves, including the theory of copulas and their empirical testing and calibration. Course Note(s): This course is the same as EN.553.646 offered through the full-time Applied Mathematics & Statistics department for the residence Master of Science in Engineering in Financial Mathematics.

EN.555.647. Quantitative Portfolio Theory & Performance Analysis. 3 Credits.
This course focuses on modern quantitative portfolio theory, models, and analysis. Topics include intertemporal approaches to modeling and optimizing asset selection and asset allocation; benchmarks (indexes), performance assessment (including Sharpe, Treynor, and Jenson ratios) and performance attribution; immunization theorems; alpha-beta separation in management, performance measurement, and attribution; Replicating Benchmark Index (RBI) strategies using cash securities/derivatives; Liability-Driven Investment (LDI); and the taxonomy and techniques of strategies for traditional management (Passive, Quasi-Passive [Indexing] Semi-Active [Immunization & Dedicated] Active [Scenario, Relative Value, Total Return and Optimization]). In addition, risk management and hedging techniques are also addressed. Course Note(s): This course is the same as EN.553.647 offered through the full-time Applied Mathematics & Statistics department for the residence Master of Science in Engineering in Financial Mathematics.

EN.555.648. Financial Engineering and Structured Products. 3 Credits.
This course focuses on structured securities and the structuring of aggregates of financial instruments into engineered solutions of problems in capital finance. Topics include the fundamentals of creating asset-backed and structured securities—including mortgage-backed securities (MBS), stripped securities, collateralized mortgage obligations (CMOs), and other asset-backed collateralized debt obligations (CDOs)—structuring and allocating cash-flows as well as enhancing credit; equity hybrids and convertible instruments; asset swaps, credit derivatives, and total return swaps; assessment of structure-risk interest rate-risk and credit-risk as well as strategies for hedging these exposures; managing portfolios of structured securities; and relative value analysis (including OAS and scenario analysis). Course Note(s): This course is the same as EN.553.648 offered through the full-time Applied Mathematics & Statistics department for the residence Master of Science in Engineering in Financial Mathematics.