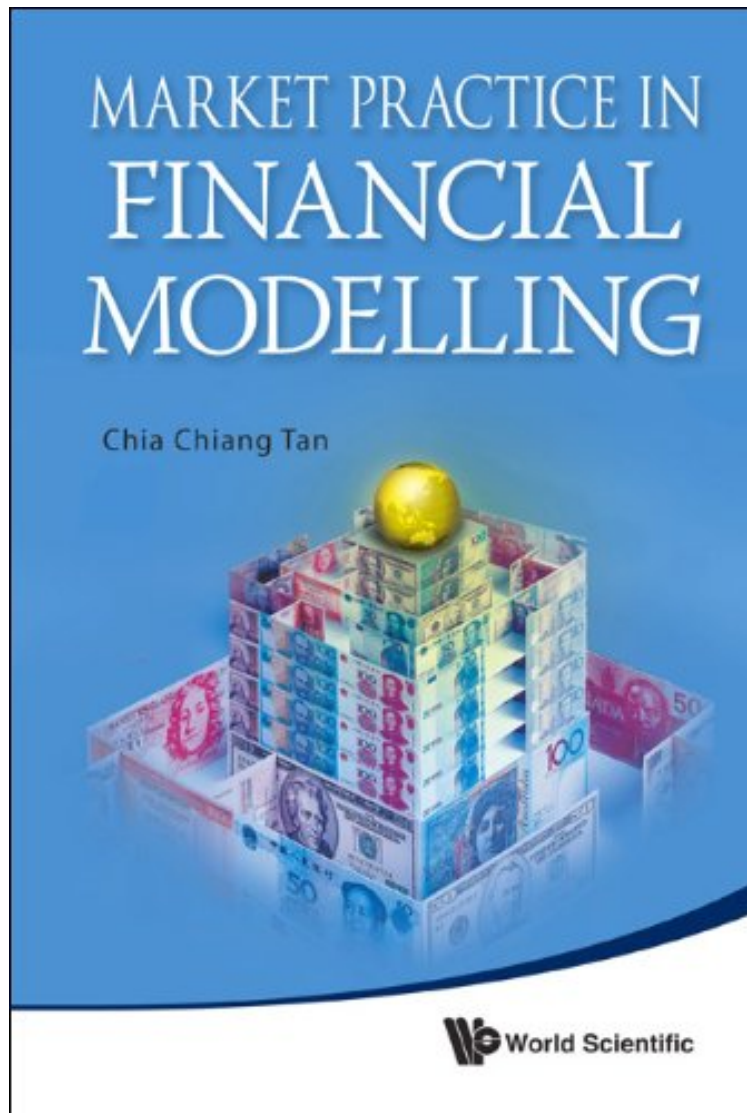


Market Practice in Financial Modelling

Tan Chia Chiang

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Tan Chia Chiang : Market Practice in Financial Modelling before purchasing it in order to gauge whether or not it would be worth my time, and all praised Market Practice in Financial Modelling:

Written to bridge the gap between foundational quantitative finance and market practice, this book goes beyond the basics covered in most textbooks by presenting content concerning actual industry norms, thus resulting in a clearer picture of the field for the readers. These include, for instance, the practitioner's perspective of how local versus stochastic volatility affects forward smile, or the implications of mean reversion on forward volatility. Key

considerations for modelling in rates, equities and foreign exchange are presented from the perspective of common themes across various assets, as well as their individual characteristics. The discussion on models emphasizes the key aspects that are relevant to the pricing of different types of financial derivatives, so that the reader can observe how an appropriate choice of models is essential in reflecting the risk profile and hedging considerations for different products. With the knowledge gleaned from this book, readers will attain a more comprehensive understanding of market practice in derivatives modelling.

Foreword (246 KB)
Contents: Introduction
Standard Market Instruments
Replication
Correlation Between Two Underlyings
Local Volatility
Stochastic Volatility
Local Stochastic Volatility
Short Rate Models
The Libor Market Model
Long-Dated Foreign Exchange
Forward Volatility and Callability
Funding and Basis

Readership: Students of financial mathematics (final year undergraduates and postgraduates) as well as new entrants into the derivatives area of investment banking.

"This book stands out since it covers topics often neglected but of utmost importance in derivatives modelling (e.g., the connection between interest rates randomness and foreign exchange randomness for long-dated FX, or the omnipresent local and stochastic volatility considerations in FX or equities). Practitioner-oriented, this book presents a framework for thinking about derivatives modelling based on real products, and leverages mathematics to illustrate key financial concepts. The author's first-hand experience on the topics makes this book very clear to understand." -- Marko Bastianic, Director, Long-Dated FX Option Trader, Barclays Capital

"Market Practice in Financial Modelling stands out in trying to help the reader understand models and why they are used and not just the math behind them. This book will bring tremendous value to anyone interested in key modelling issues such as forward vol dynamics. By keeping the math as concise as possible, the reader doesn't lose focus and will more easily understand the bigger picture." -- Alain Chebanier, Head of DB Analytics for Europe, Deutsche Bank

"Chia Tan's book provides a refreshing introduction to concepts of quantitative finance applied to real world financial markets. He intuitively explains and guides the reader to tackle problems in financial engineering with practical solutions in mind, and is mindful to point out which issues each model can address and also the problems and limitations. Whereas mathematical elegance often overshadowed important issues prior to the financial crisis of 2008, this is one of the first books with a chapter explaining, in simple terms, such issues as counterparty risk, balance sheet and funding costs, and basis risk that have become important topics to many financial institutions these days. This book will be a valuable resource for hedge fund managers and buy-side institutions who plan to use over-the-counter derivative products, and also as a refresher for the sell-side dealers who trade them." -- David Ha, Interest Rates Trader, Goldman Sachs Japan

From the Inside Flap

Written to bridge the gap between foundational quantitative finance and market practice, this book goes beyond the basics covered in most textbooks by presenting content concerning actual industry norms, thus resulting in a clearer picture of the field for the readers. These include, for instance, the practitioner's perspective of how local versus stochastic volume affects forward smile, or the implications of mean reversion on forward volume. Key considerations for modeling in rates, equities and foreign exchange are presented from the perspective of common themes across various assets, as well as their individual characteristics. The discussion on models emphasizes the key aspects that are relevant to the pricing of different types of financial derivatives, so that the reader can observe how an appropriate choice of models is essential in reflecting the risk profile and hedging considerations for different products. With the knowledge gleaned from this book, readers will attain a more comprehensive understanding of market practice in derivatives modeling.

About the Author

Chia Chiang Tan is currently a Director within DB Analytics (the quantitative analytics group) at Deutsche Bank, and an Honorary Lecturer with the Mathematics Department of University College London. He has authored *Demystifying Exotic Products* (Wiley 2010) - a book exploring the economics and underlying rationales behind various structured products. His previous work at various institutions (Dresdner Kleinwort, Barclays Capital and CIBC) has provided him with a view of different cultures and approaches to quantitative research. And his work has spanned a multitude of asset classes (including equities, foreign exchange, inflation and interest rates), giving him insights into their common characteristics as well as individual peculiarities. Chia has a Bachelor of Science degree in Mathematics from University College London and a Master of Mathematical Finance from the University of Toronto.