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# Principles Of Financial Engineering (Academic Press Advanced Finance)



## **Synopsis**

Three new chapters, numerous additions to existing chapters, and an expanded collection of questions and exercises make this third edition of *Principles of Financial Engineering* essential reading. Between defining swaps on its first page and presenting a case study on its last, Robert Kosowski and Salih Neftci's introduction to financial engineering shows readers how to create financial assets in static and dynamic environments. Poised among intuition, actual events, and financial mathematics, this book can be used to solve problems in risk management, taxation, regulation, and above all, pricing. The Third Edition presents three new chapters on financial engineering in commodity markets, financial engineering applications in hedge fund strategies, correlation swaps, structural models of default, capital structure arbitrage, contingent convertibles and how to incorporate counterparty risk into derivatives pricing, among other topics. Additions, clarifications, and illustrations throughout the volume show these instruments at work instead of explaining how they should act. The solutions manual enhances the text by presenting additional cases and solutions to exercises.

## **Book Information**

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## Customer Reviews

Quantitative Finance and financial engineering are changing rapidly following the 2007-2008 events. The areas of valuation and hedging, risk management, financial derivatives design and management are changing rapidly. The focus is more on cost of trading and on proper management of basic derivatives products rather than on designing new exotic derivatives every few months. Proper management of basic derivatives when including credit risk, collateral and funding costs, among other issues, is more difficult than managing exotic derivatives without additional risks. In this sense a book explaining how the basic products work and how quantitative finance has evolved is much needed today. In this sense Prof. Kosowski's important update of the late Prof. Neftci classic title serves a double purpose: introduce a broad audience with minimal quantitative knowledge to the field of financial engineering and quantitative finance, and show what are today's challenges for the industry. Products are introduced explaining the financial ideas behind their design and are also described with numerical examples. The book starts with institutional aspects of derivative markets and cash flows engineering, and ends with the latest developments on valuation adjustments developed to include most post 2008 effects in valuation, covering an impressive range of topics in between in its 870+ pages. This is the type of eclectic book that is needed today to frame quantitative finance and financial engineering properly in the broad context of the post 2008 developments, and I recommend this book to my students when they ask me a general reference book on financial engineering.

I am using this book for a graduate course in Financial Engineering/Modeling and am incredibly impressed on several accounts. The authors breakdown the financial math in an intuitive way that is accessible to all and clearly develop the related/necessary formulas. The presentation is lucid, logical, and bounded - giving a strong foundation in product design. The diagrams and examples are very helpful for students in understanding the cash flows and many interesting case studies are brought as well. The approach used gives well-received explanations, applications, and motivations for products. The authors steer clear of the media bias and misunderstanding/derision of many products - and go out of their way to elucidate the benefits and risks involved. I am very pleased with the development of options as instruments of volatility and the integration to overall product development. I would also seriously warn anyone looking for an easy way out - this is a very thorough book and contains a wealth of information, you must practice in Excel and try programming the products (much more so than the number of exercises given at the end of each chapter). This book is very "readable" for the non-academic and an absolutely necessary piece of

risk management. If you would like to truly understand the rationale and build of synthetics - this is the book for you!

This new edition of Principles of Financial Engineering, extensively updated and expanded by Professor Robert Kosowski, is a highly relevant book for practitioners, students, teachers and researchers with an interest in this field. The reader is introduced to the financial engineering world through an extremely detailed, rigorous and accessible way. Cutting edge academic research about the relevant topics supports the conceptual explanations and real world examples are extensively used to illustrate them. Importantly, this new edition reflects the significant post-crisis changes in financial engineering. This textbook is, in my opinion, the new reference for learning about financial engineering and therefore a must buy.

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