

1. Record Nr.	UNINA9910143204303321
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Titolo	Inflation-indexed securities : bonds, swaps and other derivatives / / Mark Deacon, Andrew Derry, and Dariush Mirfendereski
Pubbl/distr/stampa	Chichester, West Sussex, England ; ; Hoboken, N.J., : John Wiley & Sons, c2004
ISBN	9786610272303 9781118673317 111867331X 9781280272301 1280272309 9780470868980 0470868988
Edizione	[2nd ed.]
Descrizione fisica	1 online resource (361 p.)
Collana	Wiley finance series
Altri autori (Persone)	DerryAndrew MirfendereskiDariush
Disciplina	332.63/2044
Soggetti	Bonds Government securities Bond market Indexation (Economics) Inflation (Finance)
Lingua di pubblicazione	Inglese
Formato	Materiale a stampa
Livello bibliografico	Monografia
Note generali	Previously published: London: Prentice Hall Europe, 1998.
Nota di bibliografia	Includes bibliographical references (p. [301]-318) and index.
Nota di contenuto	Inflation-indexed Securities; Contents; List of Exhibits; List of Figures; List of Tables; About the Authors; Foreword by Sir Edward George; Preface to the Second Edition; Acknowledgements; Disclaimer; List of Abbreviations; 1 What Are Inflation-indexed Securities and Derivatives?; 1.1 A historical perspective; 1.2 How indexed bonds work; 1.3 The role of derivatives; 2 Security Design; 2.1 Choice of price index; 2.1.1 Index matching; 2.1.2 Index reliability and integrity; 2.1.3 Other practical considerations; 2.2 Cash flow structure; 2.2.1 Capital Indexed Bond (CIB) 2.2.2 Interest Indexed Bond (IIB) 2.2.3 Current Pay Bond (CPB); 2.2.4

Indexed Annuity Bond (IAB); 2.2.5 Indexed Zero-Coupon Bond (IZCB); 2.2.6 Other types of indexed bonds; 2.2.7 Cash flows of the different structures; 2.2.8 Factors that influence the choice of security design; 2.3 Application of the index to the cash flows; 2.3.1 The problem of the indexation lag; 2.3.2 Why indexation lags are necessary; 2.3.3 How to minimize the indexation lag; 2.3.4 Full or partial indexation?; 2.4 The impact of tax regulations; 2.4.1 Uncertainty of post-tax real yields; 2.4.2 The effect of income accrual rules; 2.5 Options on indexed bonds; 2.5.1 Callable bonds; 2.5.2 Puttable bonds; 2.5.3 Convertible bonds; 2.6 Method of issue; 2.6.1 Pricing; 2.6.2 Cost-effectiveness and market development; 2.6.3 Consistency with other instruments; 2.6.4 What happens in practice?; 2.7 Summary; Appendices; A2.1 Calculating the base annuity payment for Indexed Annuity Bonds (IABs); A2.2 Barro's proposal for revising the inflation adjustment of payments on index-linked gilts; 3 Why Invest in Indexed Debt?; 3.1 Reducing inflation risk; 3.2 Relative stability of returns; 3.3 Performance relative to conventional bonds and equities; 3.4 Total return opportunities; 3.5 Duration and other cash flow considerations; 3.6 Taxation; 3.7 Liquidity; 3.8 Other potential deterrents to investing in indexed bonds; 3.9 Alternatives to indexed bonds; 3.9.1 Treasury bills; 3.9.2 Equities; 3.9.3 Property; 3.10 Summary; 4 Why Issue Indexed Bonds?; 4.1 Why governments issue indexed bonds; 4.1.1 Reducing borrowing costs: the role of inflation expectations; 4.1.2 Reducing borrowing costs: saving the inflation risk premium; 4.1.3 Risk management; 4.1.4 Inflation-indexed bonds and monetary policy; 4.1.5 Maintaining long-term capital markets in difficult economic conditions; 4.2 Why private corporations issue indexed bonds; 4.3 The relative scarcity of index-linked bonds; 4.4 Summary; 5 Inflation and Real Interest Rate Analysis; 5.1 Measures of real interest rates; 5.1.1 Real gross redemption yields; 5.1.2 Hedge ratios: the duration and "beta" of inflation-indexed bonds; 5.1.3 The term structure of real interest rates; 5.2 Measures of inflation expectations; 5.2.1 Break-even inflation rates; 5.2.2 The "inflation term structure"; 5.2.3 The inflation risk premium and bond convexity

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## Sommario/riassunto

The global market for inflation-indexed securities has ballooned in recent years, and this trend is set to continue. This book examines the rationale behind issuance and investment decisions, and details the issues facing anyone who designs indexed securities, illustrating them wherever possible with actual examples from the international capital markets. In particular, an extensive review of indexed debt markets throughout the world is provided - including for the first time, a comprehensive and consistent set of cash flow and price-yield equations for the instruments already in existence

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