



Fall 2013  
ADVANCED FINANCIAL INSTRUMENTS AND MARKETS  
Lecture No. 08

## Market for Government Debt

Hammad Hassan Mirza  
Assistant Professor (Finance)  
Department of Business Administration  
University of Sargodha

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## Treasury Securities

- \* Treasury Bills
  - \* Discount Security
  - \* Maturity of one year or less
- \* Treasury Notes
  - \* Coupon Security
  - \* Maturity between two and ten years
- \* Treasury Bonds
  - \* Coupon Security
  - \* Maturity greater than ten years

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## The Primary Market

- \* Auction Cycles
  - \* Weekly auction for Treasury bills
  - \* Monthly auction for two- and five year Treasury notes
- \* Auction results
- \* Submission of bids
  - \* Competitive bids
  - \* Noncompetitive bids
- \* Primary dealers

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## The Secondary Market

- \* Features
  - \* Over-The-Counter Market
  - \* Continuous Market
  - \* Liquid Market
  - \* When-Issued Market

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## Government Brokers and Dealers

- \* Government Dealers
  - \* trade with the investing public
- \* Government Brokers
  - \* dealers trade with other dealer firms through interdealer brokers

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## Bid and Offer Quotes

- \* Treasury bills
  - \* quoted on a discount basis
  - \*  $\text{yield} = (D/F) \times (360/t)$
- \* Treasury coupon securities
  - \* quoted on a price basis
  - \* yield-to-maturity

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## Repurchase Agreement Market

- \* Collateralized Securities Loan
- \* Repo Rate
- \* Types
  - \* Overnight repo
  - \* Term repo
  - \* Reverse repo
  - \* System repo
  - \* Customer repo
  - \* Matched sale

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## Stripped Treasury Securities

- \* Zero-coupon instruments
  - \* created from coupon-stripping process
  - \* Backed by Treasury Securities from which they are created
  - \* Not issued by the U.S. government

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## Coupon Stripping and Reconstitution

- \* Coupon stripping
  - \* coupon securities split into multiple discount securities
- \* Reconstitution
  - \* creating synthetic Treasury coupon securities
  - \* arbitrage

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### Federal Agency Securities

- \* Federally Related Institutions Securities
  - \* Backed by full faith and credit of U.S. government
- \* Government Sponsored Enterprises Securities
  - \* Issued by privately owned, publicly chartered entities
  - \* Not backed by full faith and credit of U.S. government

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### Non U.S. Government Bonds: Types of Securities

- \* Fixed-rate coupon bonds
  - \* Convertibles
- \* Index-linked securities
  - \* Inflation
  - \* Interest rate
  - \* Capital value

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