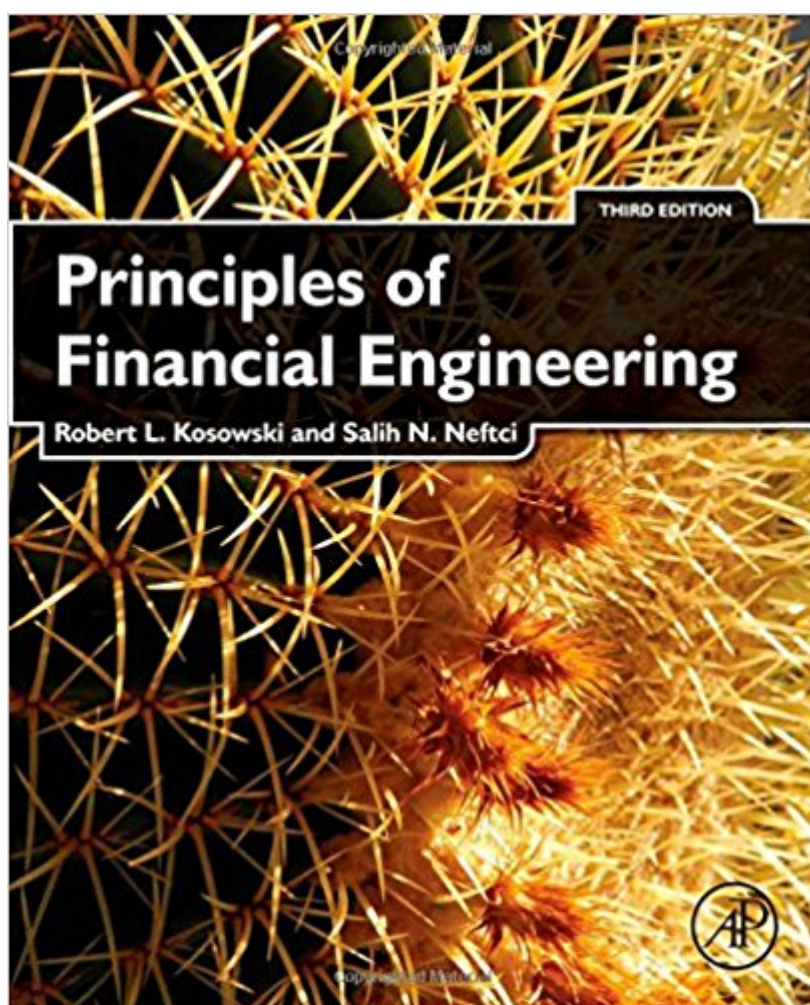


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# Principles Of Financial Engineering, Third Edition (Academic Press Advanced Finance)



## Synopsis

Principles of Financial Engineering, Third Edition, is a highly acclaimed text on the fast-paced and complex subject of financial engineering. This updated edition describes the "engineering" elements of financial engineering instead of the mathematics underlying it. It shows how to use financial tools to accomplish a goal rather than describing the tools themselves. It lays emphasis on the engineering aspects of derivatives (how to create them) rather than their pricing (how they act) in relation to other instruments, the financial markets, and financial market practices. This volume explains ways to create financial tools and how the tools work together to achieve specific goals. Applications are illustrated using real-world examples. It presents three new chapters on financial engineering in topics ranging from commodity markets to 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. Poised midway between intuition, actual events, and financial mathematics, this book can be used to solve problems in risk management, taxation, regulation, and above all, pricing. A solutions manual enhances the text by presenting additional cases and solutions to exercises. This latest edition of Principles of Financial Engineering is ideal for financial engineers, quantitative analysts in banks and investment houses, and other financial industry professionals. It is also highly recommended to graduate students in financial engineering and financial mathematics programs. 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

"This text has quickly become a modern classic of financial engineering, as broad in coverage as it is deep in content, and the addition of Kosowski brings another dimension of academic rigor and practical relevance to Neftci's impressive pedagogical legacy." --Andrew W. Lo, MIT Sloan School of Management "I'm delighted that this classical text has been updated by Professor Kosowski to reflect financial engineering post-crisis. This timely combination of timeless principles and recent revelations makes for an irresistible read." --Peter Carr, Morgan Stanley and New York University

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.

I apologize in advance: This is for the kindle version. It's not possible to leave a Kindle-specific review, but people like me, who want to buy the Kindle version, need to know just how awful the digital copy is. It's a shame, because the book itself is phenomenal (although from what I can see, edition 1 is better than edition 3). The mathematics in the Kindle version is impossible to read without a magnifying glass. I've posted two screenshots from Samsung Note 2 phone, and two screenshots from a Google Nexus 10. And, no, you can't increase the math fontsize. It's fixed. I'll let the screenshots speak for themselves. Now I'm going to see if I can get my money back.

This book is beautiful I study Financial Engineering at Massachusetts Institute of Technology

Excellent text. Clear and lucid coverage of complex topics in FE.

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.

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 hedge 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.

Prof. Robert Kosowski from Imperial College London is a gifted academic, writer and teacher. The third edition seamlessly extends this arguably best financial engineering textbook. I bought all previous editions and will continue to buy. Robert did an excellent job. I am sure Salih Neftci would

be delighted. Bernd Scherer Chief Scientific Officer, FP Asset Management Visiting Professor, WU  
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