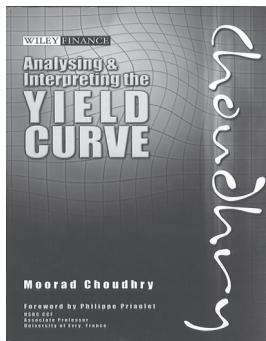


## BOOK REVIEW

### Analysing & Interpreting the Yield Curve by **Moorad Choudhry**

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*“Yield curves are like football...it is very easy to grasp the basics, but difficult to become expert at...,”* (Choudhry 2004, page 56).

***The yield curve*** is nothing new! It has been discussed in connection with the debt market since the time we first talked about term structure of interest rates. Nevertheless, experts on the yield curve are quite rare. It seems clear, as mentioned by Moorad Choudhry, the author of the book entitled ***“Analysing & Interpreting the Yield Curve,”*** that it is easy to understand the basics but difficult to become an expert on the Yield Curve.

When we discuss fixed income instruments, the topic of the yield curve is never outside the dialogue. Yield curve modeling is one of the major subjects to learn if you expect to benefit from the debt instruments. However, if you have ever tried to research the idea of the yield curve, you will then most likely find yourself reading a paragraph or a chapter in at least two books and/or some articles. There are few books that totally cover the topic of the yield curve. It seems

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to me that Choudry brings together all related issues and saves the students and practitioners, who are interested in yield curve, from having a number of books to read in order to understand all of the concepts related to yield curve.

Additionally, as a teacher of various graduate courses in finance, I have found difficulties in showing my students how to practically interpret and analyze the yield curve and apply these interpretations to real decisions on fixed income investment. After reading this book, I found a bridge that fills the gap between being able to understand the theory and using it in a practical way. With his experience as market practitioner, Choudry has provided a huge benefit to the academic area with his writing style, making difficult concepts easy by using clear and detailed explanations and by selecting very useful practical examples. He also has shown how these principles and concepts may be applied to particular problems.

At first sight I found that this book has attractive look to grasp for reading even though the title sounded so academic. After finishing the first part of the book, I realized that not only was its intriguing look but that the context of the book would provide great benefit to anyone involved in the fixed income market field and is a must-read for students in advance financial investment courses. If you are interested in understanding the yield curve and fixed income instruments, I might say that this book makes for an enjoyable read and you will find the yield curve not so difficult to understand.

However, this book is not for everyone. The reader should have a good background in financial mathematics and be familiar with the concepts of time value of money, net present value (NPV), internal rate of return (IRR), as well as the fixed income valuation.

The book is organized into four parts, divided into thirteen chapters, covering the following: the concept of bond yield and spot and forward rates; interest rate models; fitting the yield curve; and yield curve relative-value trading. **Part one** — introduction to bond yield and the yield curve — covers almost half of the book. The first chapter introduces the overview of bond yields and bond yield measurement, namely current yield, yield to maturity, converting

bond yields, redemption yield, and bonds with embedded options, as well as measuring yield for a bond portfolio. Chapter two — my most favorite chapter — discusses the basic terminology of the yield curve. The core topics of classical yield curve are examined and followed by a number of practical examples worked out in detail. These two chapters ensure that the readers will have a clear understanding of the bond yield and the yield curve.

**Part two** deals with the very practical topic of yield curve modeling. The emphasis is mainly on qualitative analyses, but there are some quantitative discussions with mathematical notation involved. The author introduces the concept step by step, starting with the basic concepts of interest rate modeling in chapters 4 & 5, and discusses various interest rate models, including short-rate models to multi-factor and whole yield curve in chapters 6 & 7. In **Part three**, Choudry introduces the concept of fitting the yield curve, looking at various techniques used to fit the term structure. The final part, **part four**, shows how market participants such as traders and fund managers analyze the yield curve as part of relative-value and spread trading. Basic principles and case studies are discussed.

As described above, I recommend this book for those involving in fixed income market and graduate students in financial area. The readers will find this book most concise yet detailed and quite friendly and will benefit from one of the powerful features of this book — it links theory and market practice well, with easy explanations and clear examples.

Hopefully, Thai graduate students and practitioners will be inspired by this book and start to research more the yield curve in the context of Thailand. The emerging bond market, like Thailand, does need more research on the yield curve and fixed income instruments. For those who would like to apply theoretical concepts to real data, the Thai Bond Market Association (ThaiBMA) has developed a website at <http://www.thaibma.or.th>, comprising useful information for practitioners and students to use and do research regarding the bond market in Thailand.

The book of Moodrad Choudry, *Analyzing & Interpreting the Yield Curve*, will help you to start learning difficult things in a convivial way. Read this book, be inspired by the book, and benefit from the book!