

Financial Derivatives

Course Objectives

This course is focused on Derivatives instruments and their application in Financial Market. This course will also focus on the different pricing models of financial derivatives.

Syllabus

Derivatives- derivatives market- derivatives instruments- different pricing strategies.

Expected Outcome

On completion of the course, the students are expected to be familiar with the concepts and framework of derivative markets and various pricing strategies.

References

1. Francis, J.C., Investments: Analysis and Management, 4th ed, McGraw Hill New York.
2. Madhumathi. R and Ranganathan M, Derivatives and Risk Management, Pearson Education, Chennai.
3. Gupta SL, Financial Derivatives (Theory, Concepts and Problems), Tata MC Graw Hills.
4. Rangarajan K Sundaram and Sanjiv R Das, Derivatives Principles and Practice, MC Graw Hills, 2013
5. Kumar, S.S.S, Financial Derivatives, Prentice Hall of India
6. Pandey, I. M , Financial management, Vikas publishing
7. Aman Chugh, Financial Derivatives: The Currency and Rates Factor, Pearson Education.
8. Redhead, Keith, Financial Derivatives- An Introduction to futures, Forwards, Options and swaps, Prentice- Hall of India, New Delhi.
9. John C Hull, Options, Futures and other derivatives, sixth edit, Pearson Education.
10. Rene, M., Stulz, Risk Management and derivatives, Thomson –South Western.

Units Topics

1 Derivatives- Types of Financial Derivatives – Basic Financial derivatives – History of Derivatives Markets – Uses of Derivatives – Critiques of Derivatives - Importance of derivatives in risk Management- Derivative markets in India— Major Recommendations of Dr. L.C. Gupta Committee-Benefits of Derivatives in India – Categories of Derivatives Traded in India – Derivatives Trading at NSE/BSE- Regulation of Financial Derivatives in India – Structure of the Market – Trading systems

2 Forwards and Futures- Pricing and Trading Mechanism of forward contract – Forward Contract concept – Features of Forward Contract – Classification of Forward Contracts – Forward Trading Mechanism – Futures – Financial Futures Contracts –Types of futures- Commodity Futures-Currency Futures-Stock Futures- Index Futures-Interest rate Futures— Evolution of Futures Market in India – Settlement – Theories of Future prices – Future prices and Risk Aversion – Forward Contract Vs. Futures Contracts

First Internal Examination

3 Stock Index Futures- Perfect Hedging Model – Basic Long and Short Hedges – Cross Hedging – Basis Risk and Hedging – Basis Risk Vs Price Risk – Hedging Effectiveness – Devising a Hedging Strategy– Hedging Objectives – Management of Hedge – Concept of Stock Index – Stock Index Futures – Stock Index Futures as a Portfolio management Tool – Speculation and Stock Index Futures – Stock Index Futures Trading in Indian Stock Market-Trading Mechanism of Commodity Futures-Currency Futures

4 Option - Introduction about option market-option as financial Insurance-Payoff and trading strategies- Trading mechanism, of option- stock options-currency options-Option pricing- Binomial Option pricing- Black and Scholes Model- Options hedging strategies- estimating volatilities.

Second Internal Examination

5 Currency Derivatives and Swaps- Introduction about SWAP- Introduction to Currency Forwards-Currency Futures-Currency Options- Currency Swaps- Interest rate Swaps-Credit derivatives- Exotic options.

Final Examination