Financial Mathematics

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[1] Based on Robert L. McDonald's *Derivatives Markets*, 3rd Ed, Pearson, 2013.

Chapter 5. Financial Forwards and Futures

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Definition 5.4-1 **Future contracts** are essentially exchange-traded forward contracts.

Typical features of futures contracts include:

- Standardized, with specified delivery dates, locations, procedures
- A clearinghouse

  Matches buy and sell orders

  Keeps track of members' obligations and payments

  After matching the trades, becomes counterparty

Differences from forward contracts

- Settled daily through the mark-to-market process
- Highly liquid: easier to offset an existing position
- Highly standardized structure
- Low credit risk
- There are typically daily price limits.

We will not go further in this section. Interested students can read the textbook.