

CONTENTS IN BRIEF

List of Business Snapshots	xvi
List of Technical Notes	xvii
Preface	xix
✓ 1. Introduction	1
✓ 2. Mechanics of futures markets	21
✓ 3. Hedging strategies using futures	47
✓ 4. Interest rates	75
✓ 5. Determination of forward and futures prices	99
✓ 6. Interest rate futures	129
✓ 7. Swaps	149
✓ 8. Mechanics of options markets	181
✓ 9. Properties of stock options	205
✓ 10. Trading strategies involving options	223
✓ 11. Binomial trees	241
✓ 12. Wiener processes and Itô's lemma	263
✓ 13. The Black-Scholes-Merton model	281
✓ 14. Options on stock indices, currencies, and futures	313
✓ 15. The Greek letters	341
✓ 16. Volatility smiles	375
17. Basic numerical procedures	391
✓ 18. Value at risk	435
19. Estimating volatilities and correlations	461
20. Credit risk	481
21. Credit derivatives	507
22. Exotic options	529
23. Weather, energy, and insurance derivatives	551
24. More on models and numerical procedures	561
25. Martingales and measures	589
26. Interest rate derivatives: the standard market models	611
27. Convexity, timing, and quanto adjustments	635
28. Interest rate derivatives: models of the short rate	649
29. Interest rate derivatives: HJM and LMM	679
30. Swaps revisited	697
31. Real options	713
✓ 32. Derivatives mishaps and what we can learn from them	729
Glossary of terms	741
DerivaGem software	761
Major exchanges trading futures and options	767
Tables for $N(x)$	768
Author index	771
Subject index	775

Contents

	List of Business Snapshots.....	xvi
	List of Technical Notes.....	xvii
	Preface	xix
Chapter 1	Introduction	1
	1.1 Exchange-traded markets	1
	1.2 Over-the-counter markets.....	2
	1.3 Forward contracts.....	3
	1.4 Futures contracts	6
	1.5 Options.....	6
	1.6 Types of traders.....	8
	1.7 Hedgers.....	9
	1.8 Speculators	11
	1.9 Arbitrageurs.....	14
	1.10 Dangers	15
	Summary.....	15
	Further reading	16
	Questions and problems.....	16
	Assignment questions	18
Chapter 2	Mechanics of futures markets.....	21
	2.1 Background	21
	2.2 Specification of a futures contract.....	23
	2.3 Convergence of futures price to spot price	26
	2.4 Daily settlement and margins	26
	2.5 Newspaper quotes.....	31
	2.6 Delivery	35
	2.7 Types of traders and types of orders.....	36
	2.8 Regulation	37
	2.9 Accounting and tax.....	39
	2.10 Forward vs. futures contracts.....	40
	Summary.....	41
	Further reading	42
	Questions and problems.....	43
	Assignment questions	44
Chapter 3	Hedging strategies using futures.....	47
	3.1 Basic principles.....	47
	3.2 Arguments for and against hedging	50
	3.3 Basis risk.....	53
	3.4 Cross hedging	56
	3.5 Stock index futures	60

3.6	Rolling the hedge forward	67
	Summary	68
	Further reading.....	69
	Questions and problems	70
	Assignment questions.....	71
	Appendix: Proof of the minimum variance hedge ratio formula	73
Chapter 4	Interest rates	75
4.1	Types of rates	75
4.2	Measuring interest rates	77
4.3	Zero rates	80
4.4	Bond pricing	80
4.5	Determining Treasury zero rates	82
4.6	Forward rates	84
4.7	Forward rate agreements	87
4.8	Duration	89
4.9	Convexity.....	92
4.10	Theories of the term structure of interest rates	93
	Summary	94
	Further reading.....	95
	Questions and problems	95
	Assignment questions.....	97
Chapter 5	Determination of forward and futures prices.....	99
5.1	Investment assets vs. consumption assets	99
5.2	Short selling	99
5.3	Assumptions and notation	101
5.4	Forward price for an investment asset	101
5.5	Known income	104
5.6	Known yield.....	107
5.7	Valuing forward contracts	107
5.8	Are forward prices and futures prices equal?	109
5.9	Futures prices of stock indices.....	110
5.10	Forward and futures contracts on currencies	112
5.11	Futures on commodities	116
5.12	The cost of carry.....	118
5.13	Delivery options.....	119
5.14	Futures prices and expected future spot prices	119
	Summary	121
	Further reading.....	122
	Questions and problems	123
	Assignment questions.....	125
	Appendix: Proof that forward and futures prices are equal when interest rates are constant	127
Chapter 6	Interest rate futures	129
6.1	Day count conventions	129
6.2	Quotations for Treasury bonds.....	131
6.3	Treasury bond futures.....	133
6.4	Eurodollar futures	137
6.5	Duration-based hedging strategies	142
6.6	Hedging portfolios of assets and liabilities	143
	Summary	144

	Further reading	145
	Questions and problems	145
	Assignment questions	147
Chapter 7	Swaps	149
	7.1 Mechanics of interest rate swaps	149
	7.2 Day count issues	155
	7.3 Confirmations	156
	7.4 The comparative-advantage argument	157
	7.5 The nature of swap rates	160
	7.6 Determining the LIBOR/swap zero rates	160
	7.7 Valuation of interest rate swaps	161
	7.8 Currency swaps	165
	7.9 Valuation of currency swaps	168
	7.10 Credit risk	171
	7.11 Other types of swaps	173
	Summary	175
	Further reading	176
	Questions and problems	176
	Assignment questions	178
Chapter 8	Mechanics of options markets	181
	8.1 Types of options	181
	8.2 Option positions	183
	8.3 Underlying assets	185
	8.4 Specification of stock options	187
	8.5 Newspaper quotes	190
	8.6 Trading	192
	8.7 Commissions	192
	8.8 Margins	194
	8.9 The options clearing corporation	195
	8.10 Regulation	196
	8.11 Taxation	196
	8.12 Warrants, executive stock options, and convertibles	197
	8.13 Over-the-counter markets	198
	Summary	200
	Further reading	200
	Questions and problems	201
	Assignment questions	202
Chapter 9	Properties of stock options	205
	9.1 Factors affecting option prices	205
	9.2 Assumptions and notation	209
	9.3 Upper and lower bounds for option prices	209
	9.4 Put-call parity	212
	9.5 Early exercise: calls on a non-dividend-paying stock	215
	9.6 Early exercise: puts on a non-dividend-paying stock	216
	9.7 Effect of dividends	218
	Summary	219
	Further reading	220
	Questions and problems	220
	Assignment questions	222
Chapter 10	Trading strategies involving options	223
	10.1 Strategies involving a single option and a stock	223

10.2	Spreads.....	225
10.3	Combinations.....	234
10.4	Other payoffs.....	237
	Summary.....	237
	Further reading.....	238
	Questions and problems.....	238
	Assignment questions.....	239
Chapter 11	Binomial trees	241
11.1	One-step binomial model.....	241
11.2	Risk-neutral valuation.....	244
11.3	Two-step binomial trees	247
11.4	A put example.....	249
11.5	American options.....	250
11.6	Delta.....	251
11.7	Matching volatility with u and d	252
11.8	Increasing the number of steps.....	255
11.9	Options on other assets.....	256
	Summary.....	260
	Further reading.....	260
	Questions and problems.....	261
	Assignment questions.....	262
Chapter 12	Wiener processes and Itô's lemma	263
12.1	The Markov property	263
12.2	Continuous-time stochastic processes.....	264
12.3	The process for a stock price	269
12.4	The parameters.....	272
12.5	Itô's lemma	273
12.6	The lognormal property	274
	Summary.....	275
	Further reading.....	276
	Questions and problems.....	276
	Assignment questions.....	277
	Appendix: Derivation of Itô's lemma	279
Chapter 13	The Black–Scholes–Merton model.....	281
13.1	Lognormal property of stock prices	281
13.2	The distribution of the rate of return	283
13.3	The expected return.....	284
13.4	Volatility.....	286
13.5	Concepts underlying the Black–Scholes–Merton differential equation.....	289
13.6	Derivation of the Black–Scholes–Merton differential equation.....	291
13.7	Risk-neutral valuation.....	293
13.8	Black–Scholes pricing formulas.....	295
13.9	Cumulative normal distribution function	297
13.10	Warrants and executive stock options.....	298
13.11	Implied volatilities.....	300
13.12	Dividends	301
	Summary.....	304
	Further reading.....	305
	Questions and problems.....	306
	Assignment questions.....	309
	Appendix: Proof of Black–Scholes–Merton formula	310

Chapter 14	Options on stock indices, currencies, and futures.....	313
14.1	Results for a stock paying a known dividend yield.....	313
14.2	Option pricing formulas.....	314
14.3	Options on stock indices.....	316
14.4	Currency options.....	321
14.5	Futures options.....	323
14.6	Valuation of futures options using binomial trees.....	329
14.7	The drift of futures prices in a risk-neutral world.....	331
14.8	Black's model for valuing futures options.....	332
14.9	Futures options vs. spot options.....	333
	Summary.....	334
	Further reading.....	335
	Questions and problems.....	336
	Assignment questions.....	339
Chapter 15	The Greek letters.....	341
15.1	Illustration.....	341
15.2	Naked and covered positions.....	342
15.3	A stop-loss strategy.....	342
15.4	Delta hedging.....	344
15.5	Theta.....	353
15.6	Gamma.....	355
15.7	Relationship between delta, theta, and gamma.....	359
15.8	Vega.....	359
15.9	Rho.....	362
15.10	The realities of hedging.....	363
15.11	Scenario analysis.....	364
15.12	Portfolio insurance.....	364
15.13	Stock market volatility.....	367
	Summary.....	368
	Further reading.....	369
	Questions and problems.....	369
	Assignment questions.....	371
	Appendix: Taylor series expansions and hedge parameters.....	373
Chapter 16	Volatility smiles.....	375
16.1	Put-call parity revisited.....	375
16.2	Foreign currency options.....	376
16.3	Equity options.....	379
16.4	The volatility term structure and volatility surfaces.....	381
16.5	Greek letters.....	383
16.6	When a single large jump is anticipated.....	383
	Summary.....	385
	Further reading.....	386
	Questions and problems.....	386
	Assignment questions.....	388
	Appendix: Determining implied risk-neutral distributions from volatility smiles.....	389
Chapter 17	Basic numerical procedures.....	391
17.1	Binomial trees.....	391
17.2	Using the binomial tree for options on indices, currencies, and futures contracts.....	398
17.3	Binomial model for a dividend-paying stock.....	401

17.4	Alternative procedures for constructing trees	406
17.5	Time-dependent parameters	409
17.6	Monte Carlo simulation	410
17.7	Variance reduction procedures.....	417
17.8	Finite difference methods.....	419
	Summary	430
	Further reading.....	430
	Questions and problems	431
	Assignment questions.....	432
Chapter 18	Value at risk	435
18.1	The VaR measure	435
18.2	Historical simulation.....	438
18.3	Model-building approach	440
18.4	Linear model.....	442
18.5	Quadratic model	446
18.6	Monte Carlo simulation	448
18.7	Comparison of approaches	449
18.8	Stress testing and back testing	450
18.9	Principal components analysis.....	450
	Summary	454
	Further reading.....	454
	Questions and problems	455
	Assignment questions.....	456
	Appendix: Cash-flow mapping	458
Chapter 19	Estimating volatilities and correlations.....	461
19.1	Estimating volatility.....	461
19.2	The exponentially weighted moving average model.....	463
19.3	The GARCH (1, 1) model	465
19.4	Choosing between the models	466
19.5	Maximum likelihood methods.....	467
19.6	Using GARCH (1, 1) to forecast future volatility	471
19.7	Correlations.....	475
	Summary	477
	Further reading.....	478
	Questions and problems	478
	Assignment questions.....	480
Chapter 20	Credit risk	481
20.1	Credit ratings.....	481
20.2	Historical default probabilities	482
20.3	Recovery rates	483
20.4	Estimating default probabilities from bond prices.....	484
20.5	Comparison of default probability estimates	486
20.6	Using equity prices to estimate default probabilities	489
20.7	Credit risk in derivatives transactions	491
20.8	Credit risk mitigation.....	493
20.9	Default correlation	495
20.10	Credit VaR	499
	Summary	502
	Further reading.....	503
	Questions and problems	503
	Assignment questions.....	505

Chapter 21	Credit derivatives	507
21.1	Credit default swaps	507
21.2	Credit indices	510
21.3	Valuation of credit default swaps	510
21.4	CDS forwards and options	514
21.5	Total return swaps	515
21.6	Basket credit default swaps	516
21.7	Collateralized debt obligations	516
21.8	Valuation of a basket CDS and CDO	519
21.9	Convertible bonds	520
	Summary	523
	Further reading	524
	Questions and problems	524
	Assignment questions	526
Chapter 22	Exotic options	529
22.1	Packages	529
22.2	Nonstandard American options	530
22.3	Forward start options	531
22.4	Compound options	531
22.5	Chooser options	532
22.6	Barrier options	533
22.7	Binary options	535
22.8	Lookback options	536
22.9	Shout options	537
22.10	Asian options	538
22.11	Options to exchange one asset for another	540
22.12	Options involving several assets	541
22.13	Static options replication	541
	Summary	544
	Further reading	544
	Questions and problems	545
	Assignment questions	547
	Appendix: Calculation of moments for valuation of basket options and Asian options	549
Chapter 23	Weather, energy, and insurance derivatives	551
23.1	Review of pricing issues	551
23.2	Weather derivatives	552
23.3	Energy derivatives	553
23.4	Insurance derivatives	556
	Summary	557
	Further reading	558
	Questions and problems	558
	Assignment question	559
Chapter 24	More on models and numerical procedures	561
24.1	Alternatives to Black–Scholes	562
24.2	Stochastic volatility models	566
24.3	The IVF model	568
24.4	Path-dependent derivatives	569
24.5	Barrier options	573
24.6	Options on two correlated assets	576
24.7	Monte Carlo simulation and American options	579

	Summary	583
	Further reading.....	584
	Questions and problems	585
	Assignment questions.....	586
Chapter 25	Martingales and measures.....	589
25.1	The market price of risk.....	590
25.2	Several state variables	593
25.3	Martingales.....	594
25.4	Alternative choices for the numeraire	596
25.5	Extension to several factors	599
25.6	Applications	600
25.7	Change of numeraire	602
	Summary	603
	Further reading.....	604
	Questions and problems	604
	Assignment questions.....	606
	Appendix: Handling multiple sources of uncertainty.....	607
Chapter 26	Interest rate derivatives: the standard market models.....	611
26.1	Black's model	611
26.2	Bond options.....	614
26.3	Interest rate caps and floors	619
26.4	European swap options.....	625
26.5	Generalizations	629
26.6	Hedging interest rate derivatives	630
	Summary	630
	Further reading.....	631
	Questions and problems	631
	Assignment questions.....	632
Chapter 27	Convexity, timing, and quanto adjustments.....	635
27.1	Convexity adjustments.....	635
27.2	Timing adjustments	639
27.3	Quantos.....	641
	Summary	644
	Further reading.....	644
	Questions and problems	645
	Assignment questions.....	646
	Appendix: Proof of the convexity adjustment formula	648
Chapter 28	Interest rate derivatives: models of the short rate	649
28.1	Background.....	649
28.2	Equilibrium models	650
28.3	No-arbitrage models	654
28.4	Options on bonds	658
28.5	Volatility structures.....	659
28.6	Interest rate trees.....	660
28.7	A general tree-building procedure	662
28.8	Calibration.....	672
28.9	Hedging using a one-factor model	673
	Summary	673
	Further reading.....	674
	Questions and problems	674
	Assignment questions.....	676

Chapter 29 Interest rate derivatives: HJM and LMM	679
29.1 The Heath, Jarrow, and Morton model.....	679
29.2 The LIBOR market model	682
29.3 Mortgage-backed securities.....	692
Summary.....	694
Further reading	695
Questions and problems.....	696
Assignment questions	696
Chapter 30 Swaps Revisited.....	697
30.1 Variations on the vanilla deal	697
30.2 Compounding swaps	699
30.3 Currency swaps	700
30.4 More complex swaps	701
30.5 Equity swaps.....	704
30.6 Swaps with embedded options	705
30.7 Other swaps.....	708
Summary.....	709
Further reading	710
Questions and problems.....	710
Assignment questions	711
Chapter 31 Real options.....	713
31.1 Capital investment appraisal	713
31.2 Extension of the risk-neutral valuation framework	714
31.3 Estimating the market price of risk.....	716
31.4 Application to the valuation of a business	717
31.5 Commodity prices.....	717
31.6 Evaluating options in an investment opportunity	722
Summary.....	727
Further reading	727
Questions and problems.....	727
Assignment questions	728
Chapter 32 Derivatives mishaps and what we can learn from them	729
32.1 Lessons for all users of derivatives.....	729
32.2 Lessons for financial institutions	733
32.3 Lessons for nonfinancial corporations	737
Summary.....	738
Further reading	738
Glossary of terms.....	741
DerivaGem software	761
Major exchanges trading futures and options.....	767
Table for $N(x)$ when $x \leq 0$.....	768
Table for $N(x)$ when $x \geq 0$.....	769
Author index	771
Subject index.....	775

BUSINESS SNAPSHOTS

1.1	Hedge Funds.....	9
1.2	The Barings Bank Disaster.....	15
2.1	The Unanticipated Delivery of a Futures Contract.....	22
2.2	Long-Term Capital Management's Big Loss.....	30
3.1	Hedging by Gold Mining Companies.....	52
3.2	Metallgesellschaft: Hedging Gone Awry.....	68
4.1	What is the Risk-Free Rate?.....	77
4.2	Orange County's Yield Curve Plays.....	86
5.1	Kidder Peabody's Embarrassing Mistake.....	103
5.2	A Systems Error?.....	109
5.3	The CME Nikkei 225 Futures Contract.....	111
5.4	Index Arbitrage in October 1987.....	112
6.1	Day Counts Can Be Deceptive.....	130
6.2	The Wild Card Play.....	136
6.3	Asset-Liability Management by Banks.....	144
7.1	Extract from Hypothetical Swap Confirmation.....	156
7.2	The Hammersmith and Fulham Story.....	173
8.1	Gucci Group's Large Dividend.....	189
8.2	Tax Planning Using Options.....	198
8.3	Executive Stock Options.....	199
9.1	Put-Call Parity and Capital Structure.....	214
10.1	Losing Money with Box Spreads.....	230
10.2	How to Make Money from Trading Straddles.....	235
13.1	Mutual Fund Returns Can Be Misleading.....	285
13.2	What Causes Volatility?.....	289
13.3	Warrants, Executive Stock Options, and Dilution.....	299
14.1	Can We Guarantee that Stocks Will Beat Bonds in the Long Run?.....	319
15.1	Dynamic Hedging in Practice.....	363
15.2	Was Portfolio Insurance to Blame for the Crash of 1987?.....	367
16.1	Making Money from Foreign Currency Options.....	379
16.2	Crashophobia.....	381
17.1	Calculating Pi with Monte Carlo Simulation.....	410
17.2	Checking Black-Scholes.....	413
18.1	How Bank Regulators Use VaR.....	436
20.1	Downgrade Triggers and Enron's Bankruptcy.....	496
20.2	Basel II.....	501
21.1	Who Bears the Credit Risk?.....	508
21.2	Is the CDS Market a Fair Game?.....	514
21.3	Correlation Smiles.....	520
22.1	Is Delta Hedging Easier or More Difficult for Exotics?.....	542
26.1	Put-Call Parity for Caps and Floors.....	621
26.2	Swaptions and Bond Options.....	626
27.1	Siegel's Paradox.....	643
29.1	IOs and POs.....	693
30.1	Hypothetical Confirmation for Nonstandard Swap.....	698
30.2	Hypothetical Confirmation for Compounding Swap.....	699
30.3	Hypothetical Confirmation for Equity Swap.....	705
30.4	Procter and Gamble's Bizarre Deal.....	709
31.1	Valuing Amazon.com.....	718
32.1	Big Losses by Financial Institutions.....	730
32.2	Big Losses by Nonfinancial Companies.....	731

TECHNICAL NOTES

Available on the Author's Website
www.rotman.utoronto.ca/~hull

1. Convexity Adjustments to Eurodollar Futures
2. Properties of the Lognormal Distribution
3. Warrant Valuation When Value of Equity plus Warrants Is Lognormal
4. Exact Procedure for Valuing American Calls on Stocks Paying a Single Dividend
5. Calculation of the Cumulative Probability in a Bivariate Normal Distribution
6. Differential Equation for Price of a Derivative on a Stock Paying a Known Dividend Yield
7. Differential Equation for Price of a Derivative on a Futures Price
8. Analytic Approximation for Valuing American Options
9. Generalized Tree-Building Procedure
10. The Cornish–Fisher Expansion to Estimate VaR
11. Manipulation of Credit Transition Matrices
12. Calculation of Cumulative Noncentral Chi-Square Distribution
13. Efficient Procedure for Valuing American-Style Lookback Options
14. The Hull–White Two-Factor Model
15. Valuing Options on Coupon-Bearing Bonds in a One-Factor Interest Rate Model
16. Construction of an Interest Rate Tree with Nonconstant Time Steps and Non-constant Parameters
17. The Process for the Short Rate in an HJM Term Structure Model
18. Valuation of a Compounding Swap
19. Valuation of an Equity Swap
20. A Generalization of the Risk-Neutral Valuation Result

Preface

It is sometimes hard for me to believe that the first edition of this book was only 330 pages and 13 chapters long! Over the last 15 years I have had to expand and adapt the book to keep up with the fast pace of change in derivatives markets.

Like earlier editions, the book serves several markets. It is appropriate for graduate courses in business, economics, and financial engineering. It can be used on advanced undergraduate courses when students have good quantitative skills. Many practitioners involved in derivatives markets find the book useful. I am pleased that half the purchasers of the book have historically been analysts, traders, and other market practitioners.

One of the key decisions that must be made by an author who is writing in the area of derivatives concerns the use of mathematics. If the level of mathematical sophistication is too high, the material is likely to be inaccessible to many students and practitioners. If it is too low, some important issues will inevitably be treated in a rather superficial way. I have tried to be particularly careful about the way I use both mathematics and notation in the book. Nonessential mathematical material has been either eliminated or included in end-of-chapter appendices and in the technical notes on my website. Concepts that are likely to be new to many readers have been explained carefully, and many numerical examples have been included.

The book provides a comprehensive treatment of derivatives and risk management. It assumes that the reader has taken introductory courses in finance and in probability and statistics. No prior knowledge of options, futures contracts, swaps, or other derivative instruments is assumed. It is not therefore necessary for students to take an elective course in investments prior to taking a course based on this book.

There are many different ways *Options, Futures, and Other Derivatives* can be used in the classroom. Instructors teaching a first course in derivatives may wish to spend most time on the first half of the book; those teaching more advanced courses will find that many different combinations of chapters in the second half of the book can be used. I find the material in Chapter 32 works well at the end of either an introductory or an advanced course.

What's New?

Material has been updated and improved throughout the book. The changes in this edition include:

1. Complete rewrites of the chapters on credit risk and credit derivatives (Chapters 20 and 21) to reflect market developments in these important areas. The rewrites result in chapters that are up to date and easier to teach from than the corresponding chapters in the fifth edition.

2. The opening six chapters have been replaced by seven chapters that cover forward, futures, and swap contracts in a more student-friendly way. The chapter on hedging has been moved to Chapter 3. Chapter 4 is now devoted to understanding how interest rates are calculated and used. Chapter 5 covers the determination of futures and forward prices. Chapter 6 deals with interest rate futures, and Chapter 7 covers swaps.
3. Over 50 highlighted descriptions of real-world situations and interesting issues, referred to as *Business Snapshots*, illustrate points being made in the text.
4. There is more discussion of how models can be implemented with Excel (see, for example, Monte Carlo simulation in Chapter 17, GARCH models in Chapter 19, and the variance-gamma model in Chapter 24). Excel Spreadsheets illustrating model implementations are available from my website.
5. A series of Technical Notes are available from my website. This means that less purely technical material needs to be included in the book. As a result, the presentation is streamlined and more student friendly.
6. DerivaGem Version 1.51 is included. One change from the previous version of DerivaGem is that spreadsheets are now unlocked in the Calculator.
7. The binomial tree chapter (Chapter 11) and the swaps chapter (Chapter 7) have been extended so that there is a more complete coverage of these topics at one place in the book.
8. There is a new chapter on “Convexity, Timing, and Quanto Adjustments”. Previously the material in this chapter was included in the chapters on “Martingales and Measures” and “Interest Rate Derivatives: The Standard Market Models”.
9. Sequencing of chapters in the second half of the book has been changed to better meet the needs of students and instructors.
10. Many new topics are included. For example, I cover the size of derivatives markets in Chapter 1, Basel II in Chapter 20, and the variance-gamma model in Chapter 24. Other topics are discussed in more depth than in the fifth edition. For example, there is more on convexity adjustments to Eurodollar futures (Chapter 5), copula models (Chapters 20 and 21), and executive stock options (Chapters 8 and 13).
11. One change has been made to the mathematical notation. δt , δx , etc., have been replaced by Δt , Δx , etc. (This reverses a change in the previous edition where I was trying to avoid overworking Δ —but found that the change was not popular!)
12. New end-of-chapter problems have been added.

The whole book (including end-of-chapter references) has been fully updated and many changes have been made to improve the presentation of material.

Software

Version 1.51 of DerivaGem is included with this book. This consists of two Excel applications: the *Options Calculator* and the *Applications Builder*. The Options Calculator consists of easy-to-use software for valuing a wide range of options. The worksheets are now unlocked. The Applications Builder consists of a number of Excel functions from which users can build their own applications. It includes a number of sample applications and enables students to explore the properties of options and

numerical procedures more easily. It also allows more interesting assignments to be designed.

The software is described more fully at the end of the book. Updates to the software can be downloaded from my website

www.rotman.utoronto.ca/~hull

Slides

Several hundred PowerPoint slides can be downloaded from my website. Instructors who adopt the text are welcome to adapt the slides to meet their own needs.

Solutions Manual

As in the fifth edition, end-of-chapter problems are divided into two groups: “Questions and Problems” and “Assignment Questions”. Solutions to the Questions and Problems are in *Options, Futures, and Other Derivatives: Solutions Manual* (ISBN: 0-13-149906-8), which is published by Prentice Hall and can be purchased by students.

Technical Notes

A new feature of the sixth edition is the use of Technical Notes. These elaborate on points made in the text and can be downloaded from my website.

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By not including the Technical Notes in the book, I was able to streamline the presentation of material so that it is more student friendly.

Online Training

In conjunction with Learning Dividends, Inc., I have developed e-Learning material entitled *Hull on Derivatives* to accompany the first half of the book. This consists of 14 modules with fully animated and narrated instruction. For more information visit

www.hullonderivatives.com

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I welcome comments on the book from readers. My email address is:

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