

MNG 305B
FINANCIAL DERIVATIVES

Credit: 4, Class Hours: 45

Course Objective: This paper will enable students to understand the nuances involved in derivatives and understand the basic operational mechanisms in derivatives

Outcome: Possess good skills in hedging risks using derivatives

Module-I Financial Derivatives – An overview: Introduction, Definition of Financial Derivative , Features, Types of Derivatives, Basic Financial Derivatives, History, development and growth of Derivatives Market, Use of Derivatives, Traders in Derivative Markets, Factors contributing to the growth of Derivatives, Forward contract, Features of Forward Contract, Classification of Forward Contracts.

Module-II Future Market: Introduction, Financial Futures contracts, Types of Financial Futures, Basic hedging practices, continuous compounding, cost of carry, margin requirement for futures, convenience yield, stock futures, use and application of stock index futures, arbitrage with stock futures, Beta and the optimal hedge ratio, Currency Futures Market.

Module-III: Options Market: Types of options, payoff of long and short put, payoff of long and short call, covered call writing, protective put strategy, straddle, strangle, bull spreads, bear spread, butterfly spread, box spread.

Principles of option pricing- put-call parity, binomial mode for pricing options, Black-scholes model, volatility and implied volatility from the Black-scholes model, options Greeks and basic delta hedging, Forex options structured solutions.

Module-IV Swap Market and Risk Management: SWAP: Introduction, concept, Nature, Evolution, Features, Types of Swaps: plain vanilla swaps, interest rate swaps, currency swaps; Delta-Gamma hedging, hedging policy-financial distress, cash flow hedges and value hedges, capital structure and hedging, over view of Commodity Derivatives.