

## IV Semester Electives- Finance

### 17MB214 FINANCIAL DERIVATIVES

#### Objective of the Course:

This course is aimed at enabling the student understand the issues involved in planning finances and investments at a personal level, and to be in a position to provide advice on the issues.

#### Course Outcomes

- Understand the meaning, nature, risk & derivatives and history of derivative market
- . Understand the forward and future contract
- To understand the types and valuation of options
- To understanding of binomial and black-scholes option models.
- Understand the various types of swaps.

#### UNIT - I

**Introduction to derivatives:** Meaning, features, uses, functions and Types of Derivatives & Traders, History of derivatives, Derivative Markets, Derivatives Trading in India, Types risks – systematic risk and unsystematic risk.

#### UNIT - II

**Forward contract** – Meaning, features, classifications, merits and demerits, determination of forward price.

**Future contract** – Meaning, Features, types of future contracts, trading mechanism, clearing house, margin money, basic concepts in futures pricing.

#### UNIT - III

**Option:** Meaning, Types of Options, options trading Valuation of Options, option pricing, Determinants of option pricing, put – call parity

#### UNIT - IV

**Option pricing model** Binomial model - introduction, assumptions, merits and demerits, computation of binomial model, Black Scholes Model, assumptions, types of models, merits and demerits, computation of black schools model .

#### UNIT - IV

**Swaps** – introduction, features, types of swaps – interest rate swap, currency swap, equity swap, credit default swap, commodity swap, economic motivators for saps

#### Skill Development:

*(These activities are only indicative, the Faculty member can innovate)*

1. To study the role of derivatives in financial markets

2. Project on financial derivatives
3. What is role of financial derivatives

**TEXT BOOKS:**

1. Hull, J.: Options: Futures and other Derivatives, Prentice Hall, New Delhi.
2. Kolb, Robert W: Understanding Future Markets, Prentice Hall Inc., New Delhi.
3. Vijaya Bhaskar P: Derivatives Simplified, Response Books, New Delhi.

**REFERENCE BOOKS:**

1. Hull, John C., Futures Options and Other Derivatives, Pearson Education (2008).
2. Head, Red, Financial Derivatives: an Introduction to Forwards, Futures and Options, Prentice hall of India (2005).
3. Vohra, N.D. and Baghi, B. R., Futures and Options, Tat McGraw Hill (2002).
4. Rajiv Srivatsava., Derivatives and Risk management, Oxford University Press (2010).