

## SEMESTER-VIII

### COURSE 24: FINANCIAL DERIVATIVES

Theory

Credits: 4

4 hrs/week

#### **Course objective:**

To introduce the participants to derivative instruments, namely, forwards, futures, options and swaps, and their valuation.

#### **Learning outcomes:**

- To gain knowledge about various instruments
- To learn about forward contracts and advantages, disadvantages
- To understand about future contracts, mechanics of future contracts, advantages and disadvantages
- To learn about historical uses of options and types of options
- Knowledge regarding financial swaps

#### **Syllabus:**

##### **Unit 1: Introduction:**

Meaning of Derivatives - Common Derivatives- Characteristics of Derivatives- Significance of Derivatives - Origin and Evolution of Derivatives – types of derivatives- Derivatives vs. Shares- Derivatives Markets-Growth and Functions- Traders in Derivatives Markets

##### **Unit 2: Forward Contracts:**

Meaning – Classification- Features- Advantages- Disadvantages-Pricing Forwards Contracts - Hedging with Forward Contracts Offsetting the Forward Position

##### **Unit 3: Futures contracts:**

Meaning -Nature - Characteristics - Significance - Types- Comparison between Futures and Badla - Mechanics of Futures Contracts- Advantages and Risks of Trading in Futures over Cash- Margin Requirements in Futures Trading- Settlement of Futures Position- Participants in Futures Markets

##### **Unit 4: Options contracts:**

Meaning - Historical Uses of Options - Types of Option- Participants in the Options Market – Regulatory Frameworks & Terminology - Options vs. Futures

##### **Unit 5: Financial swaps:**

Meaning –Nature-Evolution - Features – Types of swaps: Interest Rate Swaps-currency swaps-Debt Equity Swap- Commodity Swap –Equity Index Swaps

**Practical components:**

- Students should learn the meaning and characteristics of derivatives with reference to traders in derivatives market.
- Analyse the knowledge of forward contracts with advantages and disadvantages with reference to real time environment.
- Students should form into teams and prepare presentations on the topics in the syllabus and provide them as assignments or seminars
- All the students should collect information regarding concept of future contracts and option contracts.
- Students should analyse the meaning of financial swaps evolution and features.

**Reference Books:**

1. Financial Derivatives: Bishnupriya Mishra, Sathya Swaroop Debasish –Excel Books 2007
2. Financial Derivatives: S.L.Gupta –PHI publications
3. Fundamentals of Financial Derivatives: Prafulla Kumar Swain –Himalaya publications.