

FSC205 Derivatives Market [4 Credits]

Learning Objective: *This Course is designed to understand new tools which can be used in financial and commodity markets to cover the various risks and provide platform for business growth.*

UNIT 1: Introduction to Derivatives Market (12 Hours)

Definition – Types – Participants and functions – Development of exchange traded derivatives – Global derivatives markets – Exchange traded vs. OTC derivatives markets – Derivatives trading in India – L. C. Gupta Committee – J. R. C. Varma committee – Requirements for a successful derivatives markets

UNIT 2: Futures and Options (12 Hours)

Futures: Introduction – Futures terminology – Key features of futures contracts – Futures vs. Forwards – Pay off for futures – Equity futures – Equity futures in India – Index futures – Stock futures – Futures trading strategies- Options: Introduction – Options terminology –Types – Options pay off- Equity options contracts in India – Index options – Stock options – Options trading strategies

UNIT 3: Pricing of Futures and Options (12 Hours)

The cost of carry models for stock and index futures – cash price and futures price, arbitrage opportunity - Factors affecting options pricing-Option pricing models – Binominal pricing model – The Black and Scholes Model-Pricing of index options - Sensitivity of option premium (Delta, Gamma, Lambda, Theta, Rho) [Including Problems]

UNIT 4: Trading and Settlement Mechanism (12 Hours)

Futures and options trading system – Trader workstations – contract specification –specification for stock and index eligibility for trading charges - Clearing entities and their role- clear mechanism-adjustment for corporate actions – open position calculation - Margining and settlement mechanism-Risk Management – SPAN- Mechanics of SPAN – Overall portfolio margin requirement

UNIT 5: Commodity Derivatives (12 Hours)

Commodity markets and derivatives: Commodity Markets – Introduction - Marketing of agricultural commodities - Commodity derivatives in India - Meaning of derivatives, types, markets and participants, economic importance of commodity derivatives in India - Trading on commodity exchanges - Clearing and settlement on commodity Exchanges - Commodity Options and Applications

Suggested Readings:

1. John Hull, Options, Futures and other Derivatives, Pearson Education
2. S. L. Gupta, Financial Derivatives, Prentice Hall
3. Parameshwaran, Financial Derivatives, Mc Graw Hill
4. D. C. Patwari, options and Futures- An Indian Perspective, Jaico Publishing House.
5. Punithavati Pandian, Security Analysis and Portfolio Management, Vikas Publishing House
6. Prasanna Chandra, Security Analysis and Portfolio Management, Tata Mc Graw Hill
7. Sanjeev Aggarwal, A Guide to Indian Capital Markets, Bharat Publishing
8. NCFM Derivatives (Dealers) Module
9. NCFM Currency Derivatives Modules
10. Niti Nandining chatnani, Commodity Markets, Mc Graw Hill Pvt. Ltd, 2010
11. John C. Hull and Sankarshan Basu, Options, Futures and other Derivatives, Pearson 7th edition