APPLIES TO ACADEMIC YEAR 2009/2010

EXC 2707 Risk Management with Derivatives

Programme
Bachelor in Business Administration (3. year)

Responsible for the course

Department

Term
According to study plan

ECTS Credits
6

Language of instruction
English

Introduction
Due to the growing popularity of both financial derivative instruments as well as broadening understanding of importance of real options in general business applications, a basic understanding of intuition of derivative markets is essential not only to students and specialists in finance, but also to general business practitioners.

Objective
To familiarize students with intuition of valuation of financial instruments whose value is determined by the valuation of some other market-traded assets. Sharing in this characteristic, options and futures are referred to as derivative assets. The introduction to option and futures markets aims to provide intuition needed to understand the arbitrage free valuation of contingent claims. Intuition of importance of financial derivatives valuation is then extended to show importance of real options in general business practices.

Prerequisites
EXC 2300 Basic Financial Management, EXC 2501 Financial Decision Making, and EXC 2505 Empirical Methods in Finance, or equivalent

Compulsory reading
Books:
McDonald, Robert L. 2006. Derivatives markets. 2nd ed. Boston, Mass.: Addison Wesley

Recommended reading
Books:
Hull, John C. 2008. Fundamentals of futures and options markets. 6th ed. Upper Saddle River, N.J.: Pearson/Prentice Hall

Course outline
1. Introduction, Basics of Stock Option Pricing
2. Basic Option Strategies, Combinations and Spreads
3. Option Pricing: Black-Scholes Option Pricing Model
4. The Option Greeks
5. The Futures Market
6. Stock Index Futures
7. Foreign Exchange Futures
8. Real Options

Computer-based tools
Excel

Course structure
36 hours of class-room teaching (12 lectures) in addition to 6 hours of tutoring related to assigned exercise problems. Exercises highlighting and demonstrating often-used, practical applications managing risk with derivative instruments will be used extensively in class.

There will be mandatory home assignments. Specific Information regarding any aspect of student evaluation will be provided in class. It is the student's responsibility to obtain this information. Please note that whilst attendance is not compulsory, it is students' responsibility to obtain information provided in class that is not included on the course homepage/Blackboard or text book. Notice also that the course homepage and/or Blackboard are not designed for the purpose of accomodating the needs of students choosing not to attend class.

Examination
A three hour individual multiple choice exam concludes the course.

Exam code(s)
EXC 27072 - Multiple choice exam, which accounts for 100% of the grade in EXC 2707 Risk Management with Derivatives, 6 ECTS credts.

Examination support materials
BI-approved exam calculator and interest rate tables.

Exam aids at written examinations are explained under exam information in our web-based Student handbook. Please note use of calculator and dictionary.
http://www.bi.edu/studenthandbook/examaids

Re-sit examination
A re-sit is held in at the next scheduled exam in the course.

Additional information
Due to changes in our Bachelor Programmes from autumn 2009, there also will be changes in every single course.

This course will be lectured for the last time spring 2011. Re-sit exam will be offered every term even spring 2013.