

Programme..Master of Commerce (MCom)

MCM5402 FINANCIAL DERIVATIVES AND RISK MANAGEMENT

Course Code	MCM5402	Semester	IV
Course Title	FINANCIAL DERIVATIVES AND RISK MANAGEMENT		
Credits	4	Type	Core

Learning/Course Objective

- To understand the concept of risk management and different types of risks.
- To discuss and explain in detail financial derivatives such as options, futures, swaps.
- To identify the relationship between derivatives and risk management.
- To explain the application of financial derivatives in managing investment risk.

Course Structure

UNIT I:

Risk Management: Meaning of Risk management, Importance, types of risks to be managed, credit risk, market risk and operational risk – relationship between derivative and Risk management.

UNIT II:

Introduction to derivatives: meaning and purpose of derivatives; forward contracts Future contracts options, swaps and other derivatives; Type of trader; Trading future contracts; Specification of the future contracts; Operation of margins, Settlement and regulations. - Derivatives Market in India: –regulation, working and trading activity

UNIT III:

Futures: Hedgers and speculators; Future contracts; Future market –clearing house margins, trading future positions and taxation; Future prices and spot prices; Forward prices; vs. future prices; Futures vs options.

UNIT IV:

Options: Types of options; Option trading; Margins; Valuation of options; Binomial Option; Pricing Model; Black-Scholes model, for Call Option; Valuation of put Options; Index options; option market exchange traded options, over-the counter options, quotes trading, margins, clearing, regulation and taxations; Warrants and convertibles.

UNIT V:

SWAPS: Mechanics of interest rate swaps, valuation of interest rate, swaps currency swaps and its valuation credit risk and swaps.

Learning/Course Outcome

- Get familiar with the basic types of derivatives.
- Provides introductory theory and working knowledge of financial derivatives.
- Understand the basic risk management and trading strategies using derivatives.

Programme..Master of Commerce (MCom)

- Able to develop and employ theoretical valuation methods to price the financial derivatives.

Books for References :

1. DhaneshKhatri, derivatives and Risk management, macmillan Publishers India Ltd, 2012.
2. John C. Hull, SankarshanBasu, Options, Futures and other Derivatives, Pearson Education, Noida 2010.
3. Stafford Johnson, Introduction to Derivatives, Oxford University Press, 2009
4. David A & Thomas W. Miller, Derivatives valuation and Risk Management, Oxford University Press 2003.
5. Robert A strong, Derivatives: An Introduction, Thomson South-Western, 2002
6. Don M. Chance & Robert Brook, s Derivatives & Risk Management, South Western Cenage Learning, 2008
7. Rene M. Stuly, Risk Management & Derivatives, Thomson south Western, 2007.

Theory and Problem: - 40:60