

Derivative Securities
FINA 222 Fall 2009
Hong Kong University of Science and Technology (HKUST)

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Office: Room 4382E

TA for this Course: TBA

Lecture Room: RM2463

Office Hours: Tuesday and Thursday 10:00am-11:30am or by Appointments

Course Objective

This course requires a solid mathematic background by nature. The objectives of this course are to

- Understand the mechanics of the derivatives markets (exchange-traded and OTC, futures and options)
- Learn the techniques of hedging investment portfolio in real and financial assets using futures, forward, options, and swaps contracts.
- Grasp the pricing of futures and forward contracts
- Gain knowledge in the pricing of options and swaps contracts
- Explain derivative trading strategies
- Know how to apply derivative securities in some risk management issues
- Bridging the finance theory and the professional practice on investments
- Establish a solid foundation for advance finance courses and professional examinations such as CFA.

Required Textbook

John C. Hull, 2009, *Options, Futures, and Other Derivatives*, 7th edition, Pearson Education.

Reference Book

John C. Hull, 2009, *Fundamentals of Futures and Options Markets*, 7th edition, Pearson Education.

Global Economic and Corporate Events:

I will also use economic and corporate events and issues around the world extracted from Bloomberg, Reuters, and other public sources to illustrate how one can apply principles, concepts, and techniques to analyze investment opportunities and risks in derivative securities.

Guest Speakers:

I will invite professionals from investment banks and corporations eg. Deutsche Bank and UBS to give a brief talk or presentation in class. Actual schedules will be subject to their availability.

Policy and Procedures:

1. I will not give makeup midterm or final exam because it is impossible to make an equivalent midterm or final exam without placing the student at either an advantage or disadvantage.
2. If you have a legitimate excuse to miss the midterm, your final exam will weight 70% in your final grade. Otherwise, you will receive zero for your midterm if you do not take it. I accept the following legitimate excuses with supporting documentation.
 - a. Due to illness
 - b. Death in familyYou must inform me *before* the exam to count as an excused absence. If you cannot reach me, leave a message on my cell phone or email me. You will receive zero for the midterm if you notify me after the exam start. **Failure to follow the guidelines will mean that you forfeit the excused absence option.**
3. I understand how frustrating it is when you try to talk to or email me and cannot reach me in a timely fashion. Therefore, I will response to your phone calls or email request **within 24 hours**. But, please do not call me after 9:30pm.
4. If you believe that you should receive additional credit after I return your midterm papers, please provide a written explanation with your answer from your exam paper. I will take time to review them. You must submit your request to me **within one week** after I return your exam. Thanks for your understanding.
5. It is **very important** for you to know that I base my exams on what I teach in class. You shall master the materials that I teach in class and be able to apply them.
6. I will upload my presentation slides before each lecture. But, please note that I will add and make last minute modification for most recent corporate events and news from public sources. Please understand that it is better for you to review the slides after my explanation in class.
7. Do come to each class. I will explain the concepts and the materials in detail, and answer questions in class. Please understand that my presentation slides are not as detail as my explanation in class.

Responsibility:

As a teacher, I will

- 1) Prepare well for each class with thoughtful and organized presentation.
- 2) Consider that it is not always your fault if you do not understand the material.
- 3) Recognize that I may grade a question incorrectly and not get defensive when you politely question my grading.
- 4) Create a mutually respectful and friendly environment in and outside classroom.
- 5) Encourage questions in class and outside classroom.
- 6) Welcome feedback from students about my presentation and my teaching.

As a student, you will

- 1) Come prepared to every class by reviewing previous notes and doing assignments, complete all work on time.

- 2) Consider that it is not always my fault if you do not understand the material.
Please let me know how I can help you learn better.
- 3) Treat others and me with respect. Please turn off your cell phone and other electronic devices when the class is still in process.
- 4) Ask questions when you do not understand. Asking questions is a sign of maturity, not ignorance. Please understand that there is no stupid question.
- 5) Understand that you will learn a lot more by participating discussion in class.
- 6) Do not feel offensive when I grade your exam and homework. Please politely inform me if I incorrectly grade your work.

Prerequisites of the Course:

Fina 221 *Investment Analysis and Portfolio Management.*

Grading:

1. Assignments#	20%
2. Class Participation	10%
2. Midterm	25%
3. Final Exam	45%

#Note: Your effort in completing the assignment on time will earn 70% of the grade and the accurate answers will count 30%.

Midterm will use the entire class time at the middle of semester. Final exam will cover all materials taught in the course.

Final Grade:

I believe that every student at Hong Kong University of Science and Technology is smart. Therefore, your final grade and performance in your exams will reflect how much effort you make in this course. Coming to classes and preparing well for the exams will significantly help your performance.

Useful websites:

Bloomberg:	www.bloomberg.com
The Wall Street Journal:	www.marketwatch.com
Yahoo Finance:	http://finance.yahoo.com/
Reuters:	http://www.reuters.com/
IMF:	http://www.imf.org/external/index.htm
The World Bank:	http://www.worldbank.org/
HKMA:	http://www.info.gov.hk/hkma/
SFC:	http://www.sfc.hk/sfc/html/EN/

I am looking forward to be a learning partner with you in this spring. Have a great semester!