

## **FINA 399K Exotic Options and Equity Structured Products [3-1-0:4]**

Prerequisite: FINA222

Class Quota: 40

Proposed Schedule: Tuesdays + Thursdays 16:30-17:50

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### **Course Description**

Over the past decade there has been an increasing need for structured products from the investors and corporate. Also, there was a great escalation in the sophistication of such financial products for meeting the needs from the investors, as a result many new products that based on equity derivatives have been developed. *Equity Structured Products* were the major structured products that developed over the last ten years in the western countries and will become extremely important to the emerging markets, such as, China. This course will provide a survey about the major equity structured products, their risks, techniques for pricing, as well as key features of each *Exotic Option* that can be used to develop such equity structured products.

Tentative topics to be covered in this course include:

- Survey of equity structured products, such as, yield enhancement and principal guaranteed
- Stock indices and exchange traded funds (ETF)
- Exotic and second generation options
- Basic guaranteed equity products: basic structuring, risks to investor, risks to issuer.
- Pricing and hedging, hedging costs, and time value
- More complex guaranteed products: guaranteed structures with embedded exotic options features
- Investor and issuer considerations.
- Equity swaps: basic floating rate versus equity return, complex structures with embedded option features.

### **Objectives**

This course aims to introduce students to equity structured products which incorporate an equity-linked component and to assess their suitability as investment vehicles. It also seeks to develop an awareness of how the products can be replicated and how 'fair' valuation of the products can be undertaken as well as how to develop hedging strategies to optimize the return.

Textbook (Optional):

Das, S., *Structured Products and Hybrid Securities*, 2nd ed. Wiley, 2001 (Optional)

Kat, H., *Equity Structured Products*, Wiley, 2002 (Required)