FINN 6210 / BPHD 8240
Derivatives 1: Financial Elements of Derivatives
FALL, 2014

Instructor: KeenerHughen
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Email: whughen@uncc.edu
Office Hours: Thu 4:30-5:30 (Center City campus) and by appointment
Course Website: on Moodle
Text: Options, Futures, and Other Derivatives, by John C. Hull.
   [The 8th Edition is the most recent. You may use an earlier edition if you already
    have it, but you are responsible for making sure the material and exercises coincide
    with assigned material.]
    The solutions manual is optional but strongly recommended.

Course Description:
This course provides students with the opportunity to examine the nature and functions of
futures and options markets. Topics include hedging for risk reduction and the role of
derivative instruments in the capital markets; however, the course focuses on basic
pricing techniques which are derived from no arbitrage relations.

Course Objectives:
- To develop an understanding of the role derivatives and options play in the
economy and their importance in completing financial markets.
- To understand the economics of derivatives pricing.
- To understand how derivatives/options are used in practice and their limitations.

Statement on Academic Integrity:
All students are required to read and abide by the Code of Student Academic Integrity.
Violations of the Code of Student Academic Integrity, including plagiarism, will result in
disciplinary action as provided in the Code. Definitions and examples of plagiarism are
set forth in the Code. The Code is available from the Dean of Students Office or online
at: http://www.legal.uncc.edu/policies/ps-105.html

Statement on Diversity:
The Belk College of Business strives to create an inclusive academic climate in which the
dignity of all individuals is respected and maintained. Therefore, we celebrate diversity
that includes, but is not limited to ability/disability, age, culture, ethnicity, gender,
language, race, religion, sexual orientation, and socio-economic status.

Exams and Assignments:
There will be 1 or 2 graded assignments, 2 midterm exams, and a final exam. The graded
assignments will be somewhat involved, and you are allowed (and encouraged!) to work
in groups of 2 or 3. The exams will be closed book, but you will be allowed to bring in a
“cheat sheet”, filled with whatever formulas you wish. The final exam is comprehensive
(covers whole semester) but it will focus on the final third of the course material. Each
The exam has a duration of 2.5 hours. The grade breakdown: the assignments together will count for 10% and each of the exams will count for 30% of your grade.

Finance doctoral students will also write a proposal for a research paper that focuses on any issue in derivatives in any area that we cover in this class. You are not expected to produce a finished paper; however, the proposal must identify an outstanding research issue, discuss the current literature, and propose a research methodology. Basically I’m looking for you to answer the three questions in your write-up: What will you do, why will you do it, and how will you do it? Please see me for consultation on topics.

Missed Exams:
The midterm exams will be administered in class on Sept 18 and Oct 30. The final exam is on Dec 11. Please do not miss any of the exams. If you miss an exam and I don’t hear from you beforehand, then you will need to provide me with appropriate documentation for your absence that explains your emergency (emergencies include accidents, severe sickness, or life-or-death situations, not laziness or lack of preparation!), and we will make alternate arrangements.

Order of Topics Covered:

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Reading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug 21</td>
<td>Introduction</td>
<td>Ch 1</td>
</tr>
<tr>
<td>Aug 28</td>
<td>Futures and Forwards -- Market Mechanics, Hedging</td>
<td>Ch 2, Ch 3</td>
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<tr>
<td>Sept 4</td>
<td>Futures and Forwards -- Pricing</td>
<td>Ch 5</td>
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<tr>
<td>Sept 11</td>
<td>Interest Rates Commodity Swaps</td>
<td>Ch 4.1 – 4.7, Notes</td>
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<tr>
<td>Sept 18</td>
<td>MIDTERM EXAM I</td>
<td></td>
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<tr>
<td>Sept 25</td>
<td>Options—Market Mechanics Options Properties (begin)</td>
<td>Ch 9, Ch 10 (begin)</td>
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<td>Oct 2</td>
<td>Options Properties (cont’d) Trading Strategies</td>
<td>Ch 10 (finish), Ch 11</td>
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<tr>
<td>Oct 9</td>
<td>Binomial Trees</td>
<td>Ch 12</td>
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<tr>
<td>Oct 16</td>
<td>NO CLASS</td>
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<tr>
<td>Oct 23</td>
<td>Binomial Trees (cont’d) Risk Neutral Valuation</td>
<td>Ch 12 and Ch 20.1 – 20.5 Notes</td>
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<td>Oct 30</td>
<td>MIDTERM EXAM II</td>
<td></td>
</tr>
<tr>
<td>Nov 6</td>
<td>Black-Scholes (part 1)</td>
<td>Ch 13 and Ch 14</td>
</tr>
<tr>
<td>Nov 13</td>
<td>Black-Scholes (part 2) Volatility</td>
<td>Ch 14 (cont’d), Ch. 16, Ch. 17, Ch 22.1 – 22.4 and Ch 19.1 – 19.5</td>
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<tr>
<td>Nov 20</td>
<td>Hedging Parameters (the Greeks) Exotic Options</td>
<td>Ch 18, Ch 25</td>
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<tr>
<td>Dec 11</td>
<td>FINAL EXAM</td>
<td></td>
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