Course Objectives

The purpose of this course is to give a very broad overview of derivatives markets, touching on all aspects of the market: institutions, trading, products, and pricing. After taking this course you should be quite comfortable with the terminology of derivatives and have a solid understanding of the basics of the market from both a theoretical and practical perspective. This is a challenging course in both content and workload. However, it is designed to be conceptually challenging rather than technically challenging. Advanced thinking is required, advanced math is not.

Note: The class format is not set in stone and will differ somewhat from last year so consider this syllabus a work in progress. Also, due to student input from last year I have changed the required texts.

Prerequisites

All students should have completed the core finance course MGT/P 205. In addition, it is recommended, but not required, that students take Investments MGT/P 261 before enrolling in MGT/P 263. For students who have not taken investments you may have to do an extra five hours per week of studying in order to fully comprehend the course material.

Outside Class Requirements

Due to the breadth of the material covered students should expect to spend 10 hours per week on readings and problem sets depending on your prior experience.

Grading

Grading will be based on problem sets (40%), quizzes (40%), and a final exam (20%). Problem sets or case write-ups will be given out each week. Some will need to be completed individually and others completed in groups. At the beginning of each class there will be a 15 minute quiz covering the material from the prior week. The questions can be drawn from material covered in class or in the assigned readings. There will not be a one-to-one correspondence between class material and reading material so students should be aware that any reading material not covered in class is still fair game for quizzes or the final exam. Grading on the quizzes and problem sets will be on a scale of 1 to 5. Missed quizzes and problem sets will get a score of 0. Each student will be allowed to drop one quiz and one problem set from their overall grade. Each student is also long 1 free option of having the final exam count for 90% of their grade. This option expires the day before the final exam is handed out and will need to be exercised before then. The final exam will be a take-home exam over two and a half days where you can consult any material you wish other than any other people.
Outside Speakers

The schedule will allow two class speakers to present for ½ of a class each during the quarter. The presentations will be held during the Thursday evening class so the daytime class will be cancelled that week. The other half of the class will be normal lecture material. The speakers will talk about the practicalities of using derivatives in sales, trading and hedging. The dates have yet to be arranged and the class schedule will need to be changed accordingly.

UC Davis Code of Academic Conduct

Each student is expected to adhere to the UC Davis Code of Academic Conduct. In particular for this course, each student is expected to rely solely on themselves to complete individual problem sets, quizzes, and the final exam. For group work, it is expected that the members of each group will rely solely on each other, not people outside the group, and that each group member will make a contribution to that work. This policy will be taken very seriously in this course and any suspected violations will result in an investigation and could result in a failing grade for the course.

Required Texts


Suggested References

Chisholm, Derivatives Demystified, Wiley Finance, 2004. (High level overview targeted at managers.)


Hull, Futures, Options, and Other Derivatives Securities, Prentice Hall, 2005. (Considered by many to be the derivatives bible, but not my favorite).

Class Schedule

**Week 0**
Prior to the first class read Chapter 1 in McDonald

**Week 1**
Mar 30 Introduction and definitions
Chapters 1-4

**Week 2**
April 6 Forwards I
Chapters 5 - 6
**Problem Set 1 due**

**Week 3**
April 13 Forwards II
Chapters 7
**Problem Set 2 due**

**Week 4**
April 20 Swaps
Chapter 8
**Problem Set 3 due**

**Week 5**
April 27 Trading Game
**Problem Set 4 due**

**Week 6**
May 4 Options I
Chapter 9-10

**Week 7**
May 11 Options II:
Chapters 11-12
**Problem Set 5 due**
**Week 8**

May 18  
Options III  
Chapters 13-14  
**Problem Set 6 due**

**Week 9**

May 25  
Case: MG Hedging Program Disaster  
**Problem Set 7 due**

**Week 10**

June 1  
Case: When Genius Failed  
**Problem Set 8 due**

**Week 11**

June 9-12  
**FINAL EXAM** (take home exam over the weekend). You can use any resources you would like other than *any* other people. You will be asked to sign a statement on the exam affirming that the work on the exam is entirely your own.

Sent out by email at 5:00 p.m. on June 9th

Due back to me (either in person or email) at 10:00 a.m. on June 12th