Financial Derivatives

Section 0

Course Outline

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Definition

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More recently, a security similar to the modern derivatives had been used in the Amsterdam Exchange in 1688.
The world oldest organized exchange is the Chicago Board of Trade (CBOT) established in 1864.

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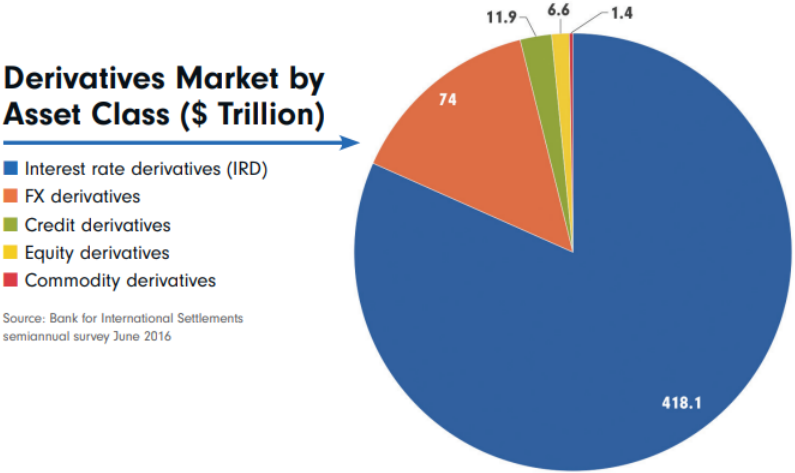
- The most important derivatives exchanges are the Eurex, the Chicago Mercantile Exchange (CME Group Inc.), the LIFFE (London), etc.

Some Motivating Data and Facts *cont'd*

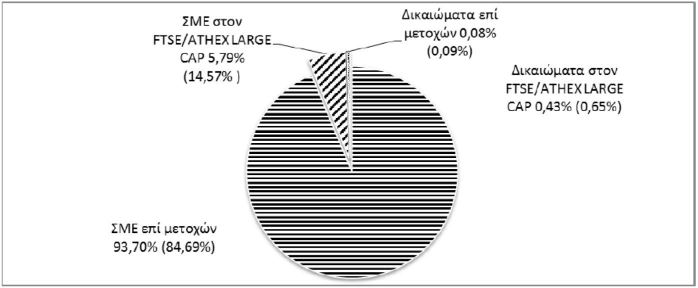


Source: BIS.

The Greek Derivatives Market

- The Greek Exchange Derivative Center is the ADEX (Athens Derivatives Exchange).
- It opened in August 1999 with the goal to organize and support the transactions of the derivatives on assets traded in the Athens Stock Exchange.
- It offers basically two types of derivatives: futures contracts and options on major stocks and the indices FTSE.
- For more information check the web site http://www.helex.gr/markets-derivatives/.

Κατανομή όγκου συναλλαγών στην αγορά παραγώγων ανά προϊόν



Πηγή: Χρηματιστήριο Αθηνών, Επιτροπή Κεφαλαιαγοράς

Why Derivatives?

There are thee basic uses of the financial derivatives:

1. Hedging: **reducing the risk exposure**.
   - Derivatives provide a perfect tool for **risk management**, since they can be tailored to any specific need.
2. Speculation: **increasing the risk exposure for making profit**.
   - Derivatives provide the opportunity to invest in an asset without having the asset itself (increase of leverage).
   - They allow investments on assets that can not be purchased directly (such as credit defaults, weather etc).
   - They allow trading into the future price expectations.
3. Arbitrage: **An investment that provides certain profit without any risk**.

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- Section 1: Forwards and Futures.
- Section 2: Swaps.
- Section 3: Introduction to Options.
- Section 4: Price Factors & Arbitrage Bounds.
- Section 5: Binomial Option Pricing Model.
- Section 6: Black and Scholes Model.
- Section 7: Risk Management and Dynamic Hedging.