FINM2002/7041
Applied Derivatives / Derivatives

Course Description
This unit is designed to further students understanding of derivatives contracts and their use in managing risk. It builds upon material covered in FINM1001/FINM7006 Foundations of Finance. The unit provides an overview of options, futures, forwards and swaps on a range of underlying commodities including stocks, interest rates, foreign exchange as well as credit derivatives. The models used for pricing these instruments will be covered as well as techniques used for risk management.

Semester and Year | S2, 2014
Course URL | http://programsandcourses.anu.edu.au/course/FINM7041
Mode of Delivery | On campus
Prerequisites | As listed in Programs and Courses
Incompatible Courses | As listed in Programs and Courses
Course Convener | Dr Xi He
Office Location: | Room 3.60 New CBE building
Phone: | 61254471
Email: | xi.he@anu.edu.au
Consultation hours: | Friday 2pm-3pm
Bio and research interests | PhD in Finance, Chartered Financial Analyst (CFA)
Research interests: corporate finance, risk management
Student Administrators | Maria Lander
| Maria.lander@anu.edu.au

COURSE OVERVIEW

Course Learning Outcomes
Upon successful completion of the requirements for this course, students will have the knowledge and skills to:

- understand options, futures, forwards, and swaps on a range of underlying assets/commodities; understand and be able to utilise option trading strategies;
- understand the types of assets/commodities we use including stocks, interest rates, foreign exchange as well as exotic instruments and weather and electricity derivatives;
- use various models to price forward, futures, swap and option contracts; and,
- use these pricing models for risk management.

Research-Led Teaching
Students learn to account for uncertainty, taxes and a range of strategic concerns. These concepts are used to analyse financing and investment and decisions from the perspective of financial managers or researchers.

Continuous Improvement
We use feedback from students, professional bodies and staff to make regular improvements to the course.
Student Feedback
All CBE courses are evaluated using Student Experience of Learning and Teaching (SELT) surveys, administered by Planning and Statistical Services at the ANU. These surveys are offered online, and students will be notified via email to their ANU address when surveys are available in each course. Feedback is used for course development so please take the time to respond thoughtfully. Course feedback is anonymous and provides the Colleges, University Education Committee and Academic Board with opportunities to recognise excellent teaching and to improve courses across the university. For more information on student surveys at ANU and reports on feedback provided on ANU courses, visit http://unistats.anu.edu.au/surveys/selt/students/ and http://unistats.anu.edu.au/surveys/selt/results/learning/

COURSE SCHEDULE

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<th>Weeks/Sessions</th>
<th>Topic</th>
<th>Reference (Chapters(s))</th>
<th>Tutorial</th>
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<td>Introduction</td>
<td>Ch 1 and 2</td>
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<td>Week 2</td>
<td>Forwards and Futures</td>
<td>Ch 3 and 5</td>
<td>Tutorial 1</td>
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<td>Week 3</td>
<td>Interest rate contracts</td>
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<td>Week 5</td>
<td>Options</td>
<td>Ch 9 and 10</td>
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<td>Week 6</td>
<td>Option trading strategies</td>
<td>Ch 11</td>
<td>Tutorials 5</td>
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<td>Week 7</td>
<td>Binomial model</td>
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<td>Tutorials 6</td>
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<td>Semester Break</td>
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<td>Week 8</td>
<td>Black-Scholes-Merton model</td>
<td>Ch 13</td>
<td>Tutorial 7</td>
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<td>Week 9</td>
<td>Index and FX options</td>
<td>Ch 15</td>
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<td>Week 10</td>
<td>Futures options</td>
<td>Ch 16</td>
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<td>Week 11</td>
<td>Greek letters</td>
<td>Ch 17</td>
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<td>Week 12</td>
<td>Credit Crisis and Credit derivatives</td>
<td>Ch 8 and Ch 23.1</td>
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<td>Week 13</td>
<td>Review</td>
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<td>Final Exam</td>
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COURSE ASSESSMENT

Assessment Summary
Assessment for this course will be confirmed after consultation with students at the first lecture of the semester. If there are any changes to the assessment, those changes will be publicised on Wattle.

<table>
<thead>
<tr>
<th>Assessment Task</th>
<th>Value</th>
<th>Due Date</th>
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<tr>
<td>1. Quizzes</td>
<td>15%</td>
<td>TBA</td>
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<tr>
<td>2. Assignment</td>
<td>25%</td>
<td>TBA</td>
</tr>
<tr>
<td>3 Final Exam</td>
<td>60%</td>
<td>TBA</td>
</tr>
</tbody>
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Assessment Task

Participation
Students are expected to attend the tutorial in which they are officially enrolled. Any assessment undertaken in a tutorial for which a student is not officially enrolled will not be recorded, unless prior permission from the course convenor has been obtained.

Assessment Task 1: 4 In-tutorial quizzes (15%)

Details of task:
- Students are required to sit 4 in-tutorial quizzes.
- Students will be notified on Wattle the week before the quiz is run.
- The quizzes will be closed book and 10 minutes induration.
- The content for the quizzes will be limited to the material for the tutorial in which it is held.

Assessment Task 2: Assignment (25%)

Details of task: Project details will be released on Wattle in week 6.

NOTE: Any evidence of plagiarism will be dealt with strictly in accordance with ANU and College policy. Assignments must be submitted to the School Office and include a cover sheet. Email and fax submissions are not acceptable. You must keep a copy of assessment materials submitted for your records. Assignment marks will be uploaded to the Wattle gradebook feature for the course. It is the responsibility of students to check that these recorded marks are in agreement with the marks written on returned assignments.

Assessment Task 3: Final Examination (60%)

The final exam has approximately 7 questions. Students will be provided with further details regarding the exam as it approaches.

Extensions and Penalties
The late penalty for assignment is 25% per calendar day.

If a student misses a quiz and doesn’t have lecturer’s approval for alternative arrangement, he/she will receive a zero for that quiz. Students must sit for the quiz in the tutorials in which they are officially enrolled. No marks will be awarded if the students go to wrong tutorial classes to do the quiz without the approval from the lecturer or tutors.
Examinations
Permitted materials in exam: Dictionary and non-programmable calculator

Scaling
Your final mark for the course will be based on the raw marks allocated for each of your assessment items. However, your final mark may not be the same number as produced by that formula, as marks may be scaled. Any scaling applied will preserve the rank order of raw marks (i.e. if your raw mark exceeds that of another student, then your scaled mark will exceed the scaled mark of that student), and may be either up or down.

Prescribed Texts and Reference Materials

Prescribed Texts


Required Reading for CFA Code of Ethics and Standards of Professional Conduct
Code of Ethics and Standards of Professional Conduct

Standards of Practice Handbook

TUTORIAL AND/OR SEMINAR REGISTRATION
Enrolment in tutorials will be completed online using the CBE Electronic Teaching Assistant (ETA). To enrol, follow these instructions:

1. Go to http://eta.fec.anu.edu.au
2. You will see the Student Login page. To log into the system, enter your University ID (your student number) and password (your ISIS password) in the appropriate fields and hit the Login button.
3. Read any news items or announcements.
4. Select "Sign Up!" from the left-hand navigation bar.
5. Select your courses from the list. To select multiple courses, hold down the control key. On PCs, this is the Ctrl key; on Macs, it is the key. Hold this key down while selecting courses with the mouse. Once courses are selected, hit the SUBMIT button.
6. A confirmation of class enrolments will be displayed. In addition, an email confirmation of class enrolments will be sent to your student account.
7. For security purposes, please ensure that you click the LOGOUT link on the confirmation page, or close the browser window when you have finished your selections.
8. If you experience any difficulties, please contact the School Office (see page 1 for contact details).
9. Students will have until the end of week 2 to finalise their enrolment in tutorials. After this time, students will be unable to change their tutorial enrolment.
**COMMUNICATION**

**Email**
If necessary, the lecturers and tutors for this course will contact students on their official ANU student email address. Information about your enrolment and fees from the Registrar and Student Services' office will also be sent to this email address.

**Announcements**
Students are expected to check the Wattle site for announcements about this course, e.g. changes to timetables or notifications of cancellations. Notifications of emergency cancellations of lectures or tutorials will be posted on the door of the relevant room.

**Course URLs**
Suggested wording: More information about this course may be found on:

- Programs and Courses (http://programsandcourses.anu.edu.au/2014/Catalogue)
- the College of Business and Economics website (http://cbe.anu.edu/courses) and
- Wattle (https://wattle.anu.edu.au), the University's online learning environment. Log on to Wattle using your student number and your ISIS password.

**POLICIES**

The University offers a number of support services for students. Information on these is available online from http://students.anu.edu.au/studentlife/

ANU has educational policies, procedures and guidelines, which are designed to ensure that staff and students are aware of the University’s academic standards, and implement them. You can find the University’s education policies and an explanatory glossary at: http://policies.anu.edu.au/

Students are expected to have read the Student Academic Integrity Policy before the commencement of their course.

Other key policies include:

- Student Assessment (Coursework)
- Student Surveys and Evaluations