

FINA 4320 SECTION 20-604/ FINA 6320 SECTION 40-605
DERIVATIVE SECURITY MARKETS
Terry College of Business
University of Georgia
Spring 2008

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Course Web Site: www.terry.uga.edu/~cstivers/4320/

I will regularly publish announcements, problem solutions, and other course materials on this site. Students should check it frequently.

Office Hours: Wednesday 3:30 – 4:30 PM, Thursday 10:00- 11:00 AM, and by appointment.

Classroom: Sanford 209

Class time: Tuesday & Thursday, 12:30 – 1:45 PM

Course Description: This course is an introduction to derivative security markets including call and put options, futures and forward contracts, and swaps. Topics include the economic role of derivatives, valuation of derivatives, derivative trading strategies, the management of corporate risk with derivatives, and an introduction to “real options”. The word “derivative” comes from the fact that these instruments derive their values from the value of other underlying instruments such as stocks, bonds, or commodities. Derivative security markets are still relatively new (at least compared to stock, bond, and money markets) and are an exciting, innovative, and growing segment of financial markets.

Text: *An Introduction to Derivatives & Risk Management*, Seventh Edition, by Don Chance and Robert Brooks, 2007, Thomson South-Western Publishers.

Recommended: The Wall Street Journal and the Economist are good examples of periodicals that regularly have related articles. During the term you may also be asked to read several selected articles in current business periodicals.

Prerequisites: FINA 4310 (Survey of Investments) and FINA 3000 (Financial Management). A basic familiarity with spreadsheets such as Excel is assumed.

Course Outline: A tentative list of specific topics and class-by-class text assignments appear on the attached course outline. While we may deviate from this schedule, it provides the basic structure for the course. I reserve the right to deviate from this schedule at my discretion depending upon class progress. I will provide a revised list of assignments if such deviations are substantial.

Homework:

Periodic Routine Homework: For every chapter, problems will be assigned that correspond to the lecture material. These problems will not be collected but some of these problems will be worked in class as examples and students should be ready to contribute to these problem-working sessions.

Supplemental Readings: Additional articles will be assigned for reading from current periodicals or journals. We will discuss these articles and they may provide material for the exam/quizzes. These readings will be announced in class and on the course web page.

Pre-exam Homework Assignments: About one week prior to every exam, I will make last year's corresponding exam available for self-test. It is **highly** recommended that you work through this exam in detail, as it will be very representative of the type of questions you will see on the exam. I will post solutions for this practice exam, several days before our exam.

Quizzes:

We will have periodic short quizzes (about 15 to 20 minutes) on the material covered in classroom examples and in the assigned problems in the periodic routing homework. I anticipate having about 4 quizzes. These quizzes will count 12 % of the course grade for 4320 students and 7 % of the course grade for 6320 students. You may drop your lowest quiz score.

Course Projects:

Two different types of projects will be assigned in the second half of the semester. This will be group work of about 3 students per group.

(1) A case report will be assigned that will apply the concepts from the class. This will be a fictional scenario of a company that requires an analysis. Details on the form of the report and the scope will be provided later in the term. This case analysis will count for 10 % of the course grade for 4320 students and 8% of the course grade for 6320 students.

(2) The second project will be an investment game where each group will have a mock-portfolio to manage. The trading will be web-based. Details will follow. Counts for 10 % of the class grade for 4320 students and 8% for 6320 students. Note that there is a small fee from the company that administers the trading game. The fee should be about \$6 to \$9 per person.

Class Attendance and Participation: Classroom attendance and participation is expected and will result in a much better course for you and your fellow students. Each student is expected to be prepared for class and to contribute to class discussions. It is your responsibility to contact me **in advance** if your absence will affect your ability to meet any of the course requirements **on time**. I realize there may be legitimate reasons for you to leave class early. However, please be considerate and let me know **prior to class starting** that you must leave early.

Laptop Policy: Students may want to bring laptops in for some lectures, when we are using Excel applications. Laptops should be used in class only for class activities, such as taking notes

or doing an in-class exercise. They should not be used to check email, surf the web, or other non-class activities. If I perceive there is a “laptop problem”, then I reserve the right to implement a “laptops closed” policy, except for when we are using a computer application directly in class.

Exams - Exams are closed book but I may provide certain complex equations for reference on the exam. I will let you know in advance which equations will be provided on exams. Exams will only be administered at the assigned times, and a missed exam will carry a grade of zero unless explicitly excused by a physician or the Dean of students. Truly exceptional circumstances should be discussed with me prior to the exam. Cheating will result in a grade of zero.

Periodic Exams: Two in-class exams will be given during the semester. These two exams are tentatively scheduled for February 14 and April 8. These exam dates will be firmed up about two weeks in advance of the exam. The first exam will be graded and returned to you prior to the course withdrawal deadline.

Final Examination: The final examination will be given at the regularly scheduled university examination time, on Tuesday May 6, at noon – 3:00 PM.

Exam Regrading: I will, of course, correct any obvious errors. However, on matters of debate, you should prepare a brief written memo to me explaining why you think you deserve more points on a particular question and then deliver the memo and exam back to me. I will then review this problem and the entire exam to evaluate whether you deserve additional points.

Grade Determination: Final grade assignments will depend upon your overall performance and will be determined as objectively as possible based on the following weights.

	<u>4320</u>	<u>6320</u>
Regular Exams	35 %	35%
Final Exam	33 %	33%
Quizzes	12 %	7%
Project Assignments	20 %	25%

The grade breakdown will be based on the following: A: 90-100; B: 80-89; C: 70-79; D: 60-69; and F: <60. Plusses and minuses will be awarded for course averages at the extreme values of these distributions, at approximately +/-1.5 pts.

Academic Honesty: All academic work must meet the standard contains in the university’s “A Culture of Honesty.” All students are responsibility to inform themselves about those standard before performing any academic work. Students will comply to the following guideline: "I will be academically honest in all of my academic work and will not tolerate academic dishonesty of others."

Changes to syllabus: The course syllabus is a general plan for the course; deviations announced to the class by the instructor may be necessary. If the revisions are substantial, I will publish a revised syllabus to keep the class fully informed.

FINA 6320 students: For the students taking the 6320 version of the course, there will be an independent research project and presentation assigned later in the semester. Additionally, other projects will either be completed in smaller groups or individually. This additional project will count 9% of the course grade.

TENTATIVE CLASS SCHEDULE

Date	Topic	Text
Jan. 8 - 10	Introduction/Overview	Chapter 1
Jan. 10 - 17	Structure of Options Markets	Chapter 2
Jan. 17 - 24	Principles of Option Pricing	Chapter 3
Jan. 24 – Feb. 7	Binomial Option Pricing Model	Chapter 4
Feb. 7 - 26	Black-Scholes Option Pricing Model	Chapter 5
Feb. 14	1st Exam (Chap. 1 – 4)	
Feb. 26 – Mar. 4	Basic Option Strategies & Applications	Chapter 6
Mar. 6 - 25	Adv. Option Strategies & Applications	Chapter 7
	Spring Break (3/10 – 3/14)	
Mar. 25 – Apr. 1	Structure of Forward and Futures Markets	Chapter 8
Apr. 1 - 10	Principles of Forward and Futures Pricing	Chapter 9
Apr. 8	2nd Exam (Chap. 5 - 8)	
Apr. 10 - 15	Futures Hedging Strategies (partial coverage)	Chapter 11
Apr. 15-17	Swaps (partial coverage)	Chapter 12
Apr. 17	Introduction to Real Options	Notes Provided
Apr. 17-24	More on Financial Risk Management (partial coverage) & Presentations	Chapters 15 & 16
Apr. 24	Wrap-up/ Review	
May 6	Final Exam	Noon – 3:00 PM