

Rutgers Business School
Rutgers, The State University of New Jersey
Futures and Options (33:390:420:02)
Fall 2008

Instructor: Dr. Zhaodong (Ken) Zhong
Office: Rm.119 Janice H. Levin Bldg.
Phone: (732) 445-4109
E-mail: zdzhong@business.rutgers.edu

Meetings: Wednesday 12:00 p.m. ~ 1:20 p.m. and Friday 1:40 p.m. ~ 3:00 p.m.
Classroom: Beck 251

Office Hours: Tuesday 5:30 p.m. ~ 6:30 p.m. and Wednesday 1:30 p.m. ~ 2:30 p.m.

COURSE OBJECTIVES:

Derivative instruments are one of the largest markets in the world and are used daily by corporate and portfolio managers. All managers should understand the basics of their use, pricing, and valuation. Financial engineers specialize in the valuation of derivatives and the creation of new derivatives. This course provides an introduction to these skills. The course will be mathematical intensive and good understanding of calculus and linear algebra is essential.

TEXTS AND MATERIALS:

Required: John Hull, *Fundamentals of Futures and Options Markets*, 6th ed., Prentice Hall
Supplementary materials: *Wall Street Journal*
Course website: Blackboard

COURSE REQUIREMENTS AND GRADING

The overall grading schedule is as follows:

Best two of the three exams	80% (40% each)
Assignments	20%

Exams:

A total of three exams will be given during the semester. The attached class schedule indicates when exams will occur. The first two exams will be non-cumulative, and the last exam will be cumulative. The best 2 out of 3 scores will count toward final grading (i.e., you can drop one exam score). Overall, exams will count for 80% of the final grade.

All exams are closed book. Students should bring a financial or scientific calculator, pen, and pencil. Laptops are not allowed. Exams may contain True/False questions, multiple choice questions, problem solving questions. The best way to prepare for the exam is to attend class, solve homework problems, and review lecture materials. A significant part of the exam will be questions nearly identical to problems discussed in class or in the homework.

Assignments:

Homework will be a component of the final grade. Periodically, homework problems will be assigned and discussed in class. On occasion, students will be required to hand in written solutions/answers to assignments for grading. The due dates will be announced in class. Students must turn in their homework on time. Late homework will receive *zero* automatically. Overall, homework will count for 20% of the final grade.

Make-up Policy:

Since you can drop one exam score, there is no make-up exam if you miss one exam. If under some extreme unusual circumstance that you have to miss another exam after you already miss one (assuming both misses are due to justified causes), one make-up exam can be given, provided that the student has adequate documentation for both cases as determined by the instructor in accordance with university policy.

Re-Grading: You may request a re-grade on any exam provided the concerned exam was written in ink. Each re-grade request must be accompanied by a concise written explanation of the request and submitted to me within one week after I distribute the grade for the exam. The whole exam will be re-graded, so your score can either increase or decrease or stay same as a result.

Class Participation and Bonus Points:



A good student

Class participation is important because it enhances the classroom environment and allows student to practice public speaking in a supportive, low-risk environment. Good public speaking is arguably the most valuable skill of a business leader. Like any other skill, it can only be improved through practice.

Chips will be awarded for solving in-class questions or participating in discussions that enhance the learning of others. Each chip is worth one bonus point, up to a maximum of 5 points. Chips will not be awarded for simple clarifications or questions that have been already discussed. Chips will be awarded on a daily basis and must be “cashed in” at the end of each class. Once you earn 5 chips, please allow time for other students to participate. I appreciate active students, but I want all students to participate.

Tentative Class Schedule (Subject to change*)

Dates	Contents	Reading (Chapters)
9/3, 9/5	Introduction	1
9/10, 1/12	Futures and Forward Markets	2
9/17, 9/19	Determination of Forward and Futures Prices	5
9/24, 9/26	Hedging Using Futures	3
10/1, 10/3	Interest Rate Futures	4, 6
10/8, 10/10	Option Markets	8
10/15, 10/17	Properties of Option Prices	9
10/22 10/24	Exam I on 10/22	
10/29, 10/31	Trading Strategies	10
11/5, 11/7	Binomial Trees	11, 16
11/12, 11/14	Black-Scholes Model	12, 17
11/19, 11/21	Options on Indices, Currencies, and Futures	13, 14
11/26(1:40-3:00pm)	Greeks / Thanksgiving	15
12/3, 12/5	Greeks and additional topics	15, 7
12/10	Exam II on 12/10	
12/18 (Thursday)	Exam III on 12/18 @ 8am (Check the following webpage for exact date and time: http://scheduling.rutgers.edu/fallfinals.htm)	

*If you miss a class, please check with your classmates for any announcement.