

## Subject Description Form

<b>Subject Code</b>	AF4317
<b>Subject Title</b>	Derivative Securities
<b>Credit Value</b>	3
<b>Level</b>	4
<b>Normal Duration</b>	One Semester
<b>Pre-requisite / Co-requisite/ Exclusion</b>	Pre-requisite: AF3313 Business Finance
<b>Role and Purposes</b>	The subject contributes to the achievement of the BBA outcomes by enabling students to think critically in the application of the uses of derivatives markets and the underlying <u>operation of financial markets</u> (Outcome 9).
<b>Subject Learning Outcomes</b>	<p>Upon successful completion of the subject, students will be able to:</p> <ol style="list-style-type: none"> <li>a. Evaluate the issues in pricing, hedging, and arbitrage in the derivative securities markets.</li> <li>b. Evaluate the price determination of derivatives and derive the price of derivatives by using different models</li> <li>c. Apply various trading and hedging strategies in real life situations to enhance portfolio returns</li> <li>d. Evaluate the real-life situations in which financial derivatives resulted in success or failure while exploring everyday uses of financial derivatives</li> </ol>
<b>Subject Synopsis/ Indicative Syllabus</b>	<p><b>Introduction</b></p> <p>What derivatives are and their economic role. The organization of derivatives markets and how derivatives are traded. Recent development of derivatives in Hong Kong will be discussed.</p> <p><b>Futures and Forwards</b></p> <p>The structure of forward and futures markets. Principles of spot pricing. Principles of forward and futures pricing. Futures hedging strategies. Advanced futures strategies.</p> <p><b>Management Risk in Corporations</b></p> <p>Risk management function in a company. Avoiding derivatives losses.</p> <p><b>Options</b></p> <p>The structure of options markets. Principles of option pricing. Option pricing models. Basic option strategies. Advanced option strategies.</p>
<b>Teaching/Learning Methodology</b>	In the first part of each class, the lecturer will provide students with a structured lecture on the underlying concepts and their applications and highlight the importance of each topical area exemplified with real-world situations. Students are required to participate in discussion in the lectures, and undertake guided reading, which will form the basis for student presentations in the later part of each class.

<b>Assessment Methods in Alignment with Intended Learning Outcomes</b>	Specific assessment methods/tasks	% weighting	Intended subject learning outcomes to be assessed (Please tick as appropriate)					
			a	b	c	d		
	1. Independent Assignment	15%			√	√		
	2. Mid-term Exam	20%	√	√				
	3. Presentation	10%	√	√	√	√		
	4. Participation	5%	√	√	√	√		
	5. Final Examination	50%	√	√	√	√		
	Total	100 %						
<i>Note: To pass this subject, students are required to obtain Grade D or above in BOTH the Continuous Assessment and Examination components.</i>								
<b>Student Study Effort Expected</b>	Class contact:							
	▪ Lectures / Seminars							39 Hrs.
	Other student study effort:							
	▪ Self-study							78 Hrs
	Total student study effort							
<b>Reading List and References</b>	<b>Required Text</b>							
	John Hull, <i>Fundamentals of Futures and Options Markets</i> , 8th Edition, Prentice Hall, 2013.							
	<b>Supplementary Readings</b>							
	Don Chance and Robert Brooks, <i>An Introduction to Derivatives and Risk Management</i> , 9th Edition, South-Western, 2013.							
	John Marthinsen, <i>Risk Takers: Uses and Abuses of Financial Derivatives</i> , 2nd Edition, Pearson Addison Wesley, 2009.							
<b>Journals</b>								
<i>Journal of Future Markets</i>				<i>Derivatives Quarterly</i>				
<i>Reviews of Derivatives Research</i>				<i>Financial Analysts Journal</i>				