

SEMESTER IV  
Code: FM04E02

Credit-3  
Hrs 90

## FINANCIAL MARKETS & DERIVATIVES

### Objectives

- *To make the students familiar with the financial system of the country in general and capital market operations in particular. The course also intends to give good understanding of commodity trading through multi commodity exchanges.*

**MODULE-1** Financial system- Indian financial system- components-role and functions of financial system-money market-capital market-industrial security market-government securities market-modern financial instruments.

(10 Hrs)

**MODULE-2** primary market-functions-methods of new issue-pricing of an issue-book building-intermediaries in the new issue market-secondary market-types of traders.

(10 Hrs)

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**MODULE-3** Derivatives-meaning-types-forwards-forward prices-continuous compounding-currency forwards-exchange rate quotation-direct and indirect-bid and offer rates-spot market and forward rate-foreign exchange risk-hedging through forwards-speculation- option forward deals-closing forward contracts-currency forwards and banks-advantages and disadvantages of forwards.

(20Hrs)

**MODULE-4** Futures contracts-features-delivery terms-price and price limit-long and short positions-open interest-uses of futures- pricing-cost of carry model in perfect market environment and imperfect market environment-deviations from model expectation-model of futures pricing-price patterns-difference between future and forwards-commodity futures-trading mechanism-forward market commission-important commodity exchanges in India-role of futures market-currency futures-clearing and settlement- margin-market to market-use of currency futures-stock futures-hedging with futures-stock futures trading in India-index futures trading-uses-interest rate futures.

(25 Hrs)

**MODULE-5** options-types-trading-uses-currency options-combination of options-exotic options-option pricing-black scholes model-assumptions-notations-calculation of option price-using put call parity-dividends anticipated-pricing of American option-binomial model of option pricing-financial swaps- interest rate swaps-swapping through intermediaries-motivation for coupon swap-currency swaps.

(25 Hrs)