

# **BKF4051/ECN4081 INTERNATIONAL FINANCIAL MARKETS**

**- Prof. Joe Falzon -**

*Four ECTS*

*First Semester*

*Test*

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## Course objectives

The course tries to help students attain a basic understanding of financial derivatives: forwards, futures, swaps and options. It uses an integrative graphical 'building block' approach that integrates the topics covered into one unified framework. An attempt is made to simplify the mathematical content and to emphasize the understanding of the underlying economic concepts.

Students are expected to read the course material before coming to the lecture and are encouraged to participate in the lecture with questions and comments. Students are also encouraged to complete all homework worksheets. The final grade will depend on a final cumulative test.

## *Main texts*

Charles W. Smithson, *Managing Financial Risk*, 1998, Mc Graw-Hill Third Edition (SM)

John Hull, *Options, Futures and other Derivatives*, sixth edition, 2006, Prentice Hall (H).

John C. Hull, *Fundamentals of Futures and Options Markets*, fourth edition, 2002, Prentice Hall

*Other texts are suggested in the Course Outline*

## **Tutorial Sheets:**

### **Worksheet 1**

Risk Profiles, Forwards, Futures and Options

### **Worksheet 2**

Arbitrage, Forward Exchange Rates

### **Worksheet 3**

Put and Call Options

### **Worksheet 4**

The rationale of Hedging, Forward Rate Agreements

### **Worksheet 5**

Interest Compounding, Futures Prices, Storage Costs

### **Worksheet 6**

Swaps

### **Worksheet 7**

Hedging Using Options

### **Worksheet 8**

Protective Puts, Bear spreads, Bull spreads, Butterfly spreads, Strangles, Straddles

### **Worksheet 9**

Option Pricing using binomial trees

### **Worksheet 10**

Black-Scholes Model, Implied Volatility