Syllabus
Derivative Securities
Darden Graduate School of Business
Spring Quarter 3 2004

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Course Overview:

The course is an overview of derivatives. During the course we will examine different types of derivatives and how they are priced. Most of the pricing will be done in the context of the binomial option-pricing model. This is a simple but powerful approach to valuing a wide variety of derivative.

The textbook I have chosen is the best book on this topic that is available. It is my objective that we will cover most of the material in the book. First year finance and Valuation in Financial Markets have covered the material in Chapters 1, 4, 5, 6 and 7 of the textbook. We will cover all of the remaining Chapters except Chapters 15, 18, 19, 21 and 23.

Grading:

The grading in the course has three components. They consist of class participation (20%), four problem sets (35%) and a final exam (45%).

Internet:

The internet version of the syllabus is located at http://faculty.darden.edu/conroyb/derivatives/2004/843CourseOutline.htm. This document is available for downloading and also contains links to assignments.
Session #1- Thursday, January 15, 2004

Topic:  Forward and Futures Prices
Read:  Please scan Hull Chapters 1 and 2 (pages 19-31) in Hull.  
       Read Hull Chapter 2, pages 32-37 and Chapter 3.

Session #2, Friday, January 16, 2004

Topic:  Forward and Futures Hedging
Read:  Chapter 4, pages 70-88
Case:  MG Refining & Marketing Inc. (A)

Session #3, Thursday, January 22, 2004

Topic:  Trading Strategies Involving Options
Read:  Scan Chapters 7 and 8 in the Hull book. Most of this material was covered in FY 
       Finance and Valuation.  
       Read Hull Chapter 9

Session #4, Friday, January 23, 2004

Topic:  Binomial Option Pricing
Read:  Binomial Option Pricing (Darden Technical Note) 
       or
       Hull Chapter 10
Session #5, Wednesday, January 28, 2004

**Topic:** The Black-Scholes Analysis

**Read:** Hull Chapter 11 pages 216-227 and Chapter 12, pages 234-246.

Session #6, Thursday, January 29, 2004

**Topic:** Warrants and Dividends

**Read:** Hull Chapter 12, pages 249-257.

Session #7, Wednesday, February 4, 2004

**Topic:** Risk Management

**Read:** Hull Chapter 14, pages 399-320

Session #8, Thursday, February 5, 2004

**Topic:** Stock Index Options

**Read:** Hull Chapter 13

Session #9, Friday, February 6, 2004

**Topic:** Portfolio Insurance

**Read:** Chapter 14, pages 320-324 and Hand out on Portfolio Insurance
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Session #10, Wednesday, February 11, 2004
Topic: Numerical Procedures for Estimating Option Values
Read: Hull Chapter 18 pages 392-410.

Session #11, Thursday, February 12, 2004
Topic: Interest Rate Derivatives - I
Read: Hull Chapter 22, pages 508-520

Session #12, Wednesday, February 18, 2004
Topic: Interest Rate Derivatives - II
Read: Hull Chapter 22, pages 520-531

Session #13, Thursday, February 19, 2004
Topic: Pricing Convertible Bonds

Session #14, Wednesday, February 25, 2004
Topic: Value at Risk
Read: Hull Chapter 16
Case: Sanders & Associates

Session #15, Thursday, February 26, 2004
Topic: Real Options
Case: Jacobs Division 2003