FINA7A50-01 (15772) Derivatives I: Options

Tuesdays: 6:00 – 9:00   on zoom

FINA7A50-01 is designed to give the student a thorough introduction to the theory of OPTIONS and its applications in practice. The emphasis in this course is on profit making strategies and the use of options in risk management by investors and firms.
This is an advanced elective graduate course.

A. Professor availability:
Professor Ramon Rabinovitch

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Office hour: The best way to communicate with me is by email.
You may, however, request an office hour in person, or a special zoom meeting with me in order to better clarify the material or any other aspect of the course on a personal basis.

B. My teaching method:

The course is given in 7 class meetings in which I present the material employing a set of slides that I have developed for this course. These slides follow closely the chapters we cover in the textbook and employ the exact same notation. In class I explain the theory and present numerical examples thereby facilitating your study of the material in the textbook.
I strongly believe that it is impossible to fully understand the material based on the class lectures alone. Thus, in order to help the student to understand and master the material, there will be about 5 homework (HW) assignments. I consider these assignments to be an integral part of my teaching method and thus, the average of your scores on the HW assignments will contribute 25% to your course score. See the explanation in part E below:

C.   The course material sources:

1. **Required textbook:** John C. Hull, "*Options, Futures, and other Derivatives*" 10 th edition, Pearson.
   We will cover Chapters:
   10:           Mechanics of options markets.
   10a: Supplement.
   12:           Trading strategies involving options.
   11:           Properties of stock options.
   15:           The Black-Scholes-Merton model.
   19:           The Greek letters.

2. **Additional required readings: booklet,**
   "*Characteristics and Risks of Standardized Options*",
   Published by the Options Clearing Corporation (OCC.)
   Go to:

   bullmarketus.com/img/riskstoc.pdf

3.   **My slides** will be posted on Canvas learn well before we cover the material they present.

4.   Additional reading material **may** be assigned and will become part of the required reading material for the course.

D.   The course requirements:

Your **final letter grade** in this course is based **only** on the HW assignments average score and two exams scores, as explained in part E below.

The HW assignments and the two exams are the
ONLY
requirements for a grade in this course.

D1.   Homework assignments:

There will be weekly homework assignments. A HW assignment is official ONLY when it is posted on Canvas. HW assignments are posted on Tuesdays. All the HW assignments will be graded and their average score contributes 25% to your final **course score**. (See part E). The full answers will be posted on Canvas.

<u>All HW assignments must be submitted on Canvas by the time specified on the HW.</u> Handwritten homework will not be graded and will receive the grade of "0".

A caveat: HW assignments are <u>individual</u>. Do not copy HW assignments. If you are caught copying a HW assignment you, as well as the person you copied from, will get a "0" score for that assignment. The second time you are caught copying a HW assignment you will be dropped from the class with an "F".

Teaching Assistant: TBA

D2.   Exams:

EXAM	DAY	DATE	ROOM	TIME
<u>Exam I:</u>	Saturday	February 17	online	2:00 – 5:00PM
<u>Exam II:</u>	Tuesday	March 5	online	6:00 – 9:00PM

<u>The exams are cumulative!</u> The second exam covers all the material covered in the course. The material for every exam will be discussed in class before the exam. The exact pages in the textbook and my slides to be covered by the exam will be posted on Canvas before every exam. Previous respective exams and their solutions will be posted as well. The questions on all exams are similar to the HW questions. They all are essay problems with calculations, graphs, table presentations and economic interpretations of the results. NO multiple choice and NO true/false questions appear on the exams. The exams are on Canvas.

E. My grading system:

The **letter grade** in the course is based on your **course score**. The **Course Score** is calculated based the exams scores and the HW assignments average score as follows:

Course score = **(.25)(Average of HW scores)**
+ (.35)(Exam I score)
+ (.40)(Exam II score)

Example: HW average = 95. S_I = 68. S_{II} = 89.
Course score = (.25)(95) + (.35)(68) + (.40)(89) = 83.15

Once I have calculated the **Course scores** I assign your **letter grade** based on my **curve** of the **Course scores** for the entire class. Only the **Course Score** is **curved**. The individual exams' scores are **NOT curved**.

Usually, the average **Course score** of the entire class is **around "B"**. Pluses and minuses are added at half standard deviation.
In general, the letter grades distribution is:

100	–	90	A	
89	-	87	A-	
86	-	77	B	(including +, , -)
76	-	67	C	(including +, , -)
66	-	56	D	(including +, , -)
55	-	0	F	

Finally, after I assign your **letter grade** I check the scores and the grade of every student individually, so as to be sure that the grade represents the student success in the home works and the exams.

F. Managing your progress in the course:

1. All the HW assignments are graded on a weekly basis and their full answers are posted on Canvas. This practice allows you a weekly check of your understanding of the material and progress in course.
2. After EXAM I you may assess your progress in the course by calculating your Partial Grade (PG) as follows:

$$PG = [(.25)(HW_{AV}) + (.35)(S_I)]/60.$$

Then, find where your Partial Grade falls in the letter grade distribution above.

H.   A Caveat.

The Bauer College of Business is proud of the high quality of our students and academic programs and recognizes the importance of academic honesty in maintaining our high standards. Please be aware that any violations of the University of Houston Academic Honesty Policy in this course will be taken very seriously and will invoke disciplinary procedures under the policy. All Home work assignments and exams in this class are INDIVIDUAL assignments and must be completed without assistance from others. Giving or receiving unauthorized assistance on home works or exams in this class constitute academic dishonesty under Articles 3.01(d), (f) and (g) of the Academic Honesty Policy. If you have any questions about the Policy, please consult the 2002-2003 Student Handbook or contact the Dean of Students Office (713) 743 5470.