

FINA7350-01

Derivatives I: Options

17613

M

6:00 – 9:00

MH140

FINA7350 is designed to give the student a thorough analysis of the theory of OPTIONS and its applications in practice. The emphasis of this course is on the use of options in risk management by investors and firms of all sizes. This is an advanced elective course.

A. Professor availability:

Professor Ramon Rabinovitch

210 – H, Melcher Hall;
TEL. (713) 743 4782;
FAX. (713) 743 4789;
EMAIL : ramon@uh.edu;
WEB SITE: www.bauer.uh.edu/ramon

Formal office hours: M 5:00 – 6:00PM.

Informal office hours: I am always available for consulting and any other assistance.

Any time you wish to contact me, please, feel free to call me, send me email messages or simply come and visit me in my office any time!

B. My teaching method:

The course is given in about 14 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. In class I explain the theory and present numerical examples thereby facilitating your study of the material in the textbook. You should make copies of my slides (six to a page) and bring the hard copy to all the classes. This way I can go over complex topics, proofs and examples and you will only have to annotate them in your notes. My slides will be posted on Blackboard.

I 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 10 homework (HW) assignments. I consider these assignments an integral part of my teaching method, therefore, the HW assignments are graded and their average score becomes 12.5% of your course score. See part E below.

C. The course material sources:

1. **Required textbook:** John C. Hull, *"Options, Futures, and other Derivatives"* 8th edition, Pearson/Prentice Hall.

We will cover Chapters:

- 9: Mechanics of options markets.
 - 11: Trading strategies involving options.
 - 10: Properties of stock options.
 - 14: The Black-Scholes - Merton model.
 - 16: Options on stock indices and currencies.
 - 18: The Greek letters.
 - 28: Interest rate options.
 - 25: Exotic options and other nonstandard products.
2. **Required readings:** *"Characteristics and Risks of Standardized Options"*, Published by the Options Clearing Corporation – OCC. Go to www.cboe.com and then go to PRODUCTS. Scroll down to the bottom of the page.
 3. **My slides** will be posted on Blackboard learn well before we cover the material they present. I strongly suggest that you make a hard copy of these slides (six per page) and bring them to all classes.
 4. Additional reading material **may** be assigned throughout the semester and become part of the required reading material for the course.

D. The course requirements:

Your final letter grade in this course is based on a weighted average of the HW assignments scores and three exams scores, as explained in part E below.

The HW assignments and the three 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 appears on my Blackboard. HW assignments are given on Tuesdays. If there is no HW assignment on Blackboard by Wednesday evening then there is no HW for the next week.

All the HW assignments will be graded and their average score contributes 15% to your final **COURSE SCORE**. (See part E). The full answers are posted on Blackboard.

All HW assignments must be printed including tables, graphs and math. Handwritten HW assignments will not be graded.

Late HW assignment will not be accepted.

You may fax me your HW.

I will NOT accept HW through email.

A caveat: HW assignments are individual. Do not copy HW assignments. If you are caught copying a HW assignment you will get a "0" 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

Mina Zarrin; office: 230B

Email: mzarrinmiandoab@bauer.edu

Office hour: Thursday 1:00 – 2:00PM

D2. Exams:

<u>EXAM</u>	<u>DAY</u>	<u>DATE</u>	<u>ROOM</u>	<u>TIME</u>
<u>Exam I:</u>	Saturday	October 7	150	9:30 – 12:00
<u>Exam II:</u>	Saturday	November 4	150	9:30 – 12:00
<u>Exam III:</u>	Monday	November 27	MH 140	6:00 - 9:00

The exams are cumulative! Every exam covers all the material of all previous exams. The material for every exam will be discussed in class before the exam. The exact pages and slide to be covered by the exam, as well as previous exams and their solutions will be posted on Blackboard before every exam. 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.

All exams are closed book and notes. You may, however, bring to the exam a hand calculator and 2 regular size pages (4 sides) of your notes.

You must bring your University ID to all of the exams.

E. My grading system:

Your final **letter grade** in the course is based on your **COURSE SCORE**, which is based on a weighted average of the exams scores and the HW assignment average as follows:

$$\begin{aligned}\text{Course score} = & \quad (.15)(\text{Average of HW scores}) \\ & + \quad (.25)(\text{Exam I score}) \\ & + \quad (.30)(\text{Exam II score}) \\ & + \quad (.30)(\text{Exam III score}).\end{aligned}$$

Example: HW average = 95. $S_I = 68$; $S_{II} = 89$; $S_{III} = 77$.
Course score = $(.15)(95) + (.25)(68) + (.30)(89) + (.30)(77)$
 = 81.05.

Once I have calculated your **Course score** 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 from the average.

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 grade of every student individually, so as to be sure that the grade is appropriate and represents that 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 Blackboard. 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 as follows:

$$PG(1) = [(.15)(HW_{AV}) + (.25)(S_I)]/40.$$

Then, find where your Partial Grade, PG(1), falls in the letter grade distribution above.

3. After EXAM II you may assess your progress in the course by calculating your Partial Grade as follows:

$$PG(2) = [(.15)(HW_{AV}) + (.25)(S_I) + (.30)(S_{II})]/70.$$

Then, find where your Partial Grade, PG(2), 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.

Mental health/stress issues

“Counseling and Psychological Services (CAPS) can help students who are having difficulties managing stress, adjusting to college, or feeling sad and hopeless. You can reach CAPS (www.uh.edu/caps) by calling 713-743-5454 during and after business hours for routine appointments or if you or someone you know is in crisis. Also, there is no appointment necessary for the “Let's Talk” program, which is a drop-in consultation service at convenient locations and hours around campus. http://www.uh.edu/caps/outreach/lets_talk.html.”

