

Fundamentals of Futures and Options Markets



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 PREFACE

In this Australasian edition of the classic text by Hull, we have aimed to produce a book even more suitable for use by students in the Australian region while maintaining the excellent pedagogical treatment provided in the original US version. In this adaptation of the original text, we have included Australian market conventions as they relate to options and futures markets. Often we have retained the US treatment in the text so as to maintain the international flavour of the book and to provide a contrast between the two different markets. Many Australian institutions and industry practices are referred to and described throughout the text. One of the many excellent features of the original text, namely the Business snapshots, have been developed further to include many relevant events from Australian practice. All chapters conclude with end of chapter exercises which have been graded in increasing order of difficulty as consolidate, development and extension. Exercises based on the updated Australian content have also been included where relevant. We have been careful to retain all the excellent qualities of the original version of this book which have made it so popular while making it more directly relevant to students studying in Australia and the region.

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John Hull was originally persuaded to write this book as colleagues who liked his other book *Options, Futures, and Other Derivatives*, found the material a little too advanced for their students. *Fundamentals of Futures and Options Markets* covers some of the same ground as *Options, Futures, and Other Derivatives*, but in a way that readers who have had limited training in mathematics find easier to understand. One important difference between the two books is that there is no calculus in this book. *Fundamentals* is suitable for undergraduate and graduate elective courses offered by business, economics, and other faculties. In addition, many practitioners who want to improve their understanding of futures and options markets will find the book useful.

The world has experienced a severe financial crisis and derivatives markets have been subject to a great deal of criticism. Students want to discuss this and it is appropriate to talk about it at an early stage in a course on derivatives, hence included is a chapter on the crisis early in the book (Chapter 8). The chapter discusses the products that were created from subprime mortgages, what went wrong, and how future crises can be avoided.

Instructors can use this book in a many different ways. Some may choose to cover only the first 12 chapters, finishing with binomial trees. For those who want to do more, there are many different sequences in which chapters 13 to 25 can be covered. From Chapter 18 onward, each chapter has been

designed so that it is independent of the others and can be included in or omitted from a course without causing problems. It is useful finishing a course with Chapter 25, which students always find interesting and entertaining.

INCLUDED IN THIS EDITION

- 1.1 There is a chapter devoted to securitisation and the credit crisis (Chapter 8). The events in financial markets since the sixth edition was published make these topics particularly relevant for students.
- 1.2 A chapter devoted to employee stock options (Chapter 14). Changes in accounting rules have highlighted the importance of understanding how these options work and how they should be valued.
- 1.3 The material on value at risk is developed using an example involving real data taken from the credit crisis. Spreadsheets for the example are available on the author's website. Material on futures-style options, the use of clearinghouses for over-the-counter derivatives, and the VIX index has been included. These are topics that have become important in the last few years.
- 1.4 Key Australian content is included: fundamental theorem of asset pricing, GFC, CFD's., 90 day bank bill futures, stock options, focus on agricultural and energy derivatives, SPI futures, options on SPI futures and Australian Securities Exchange material

SUPPLEMENTS

Software

DerivaGem, Version 2.01, is included with this book and can be found on the supporting website to download (www.pearson.com.au/highered/hull). This consists of two Excel applications: the *Options Calculator* and the *Applications Builder*. The Options Calculator provides a user-friendly interface for valuing a wide range of options. The Applications Builder consists of a number of Excel functions from which users can build their own applications. It includes some sample applications and enables students to explore the properties of options and numerical procedures more easily. It also allows more interesting assignments to be designed.

Slides

A full set of Powerpoint slides have been developed to tie in closely with the text. These are fully customisable to meet individual teaching requirements.

Solutions Manual

The solutions manual provides answers to the practice and further questions within the text.

Test Bank

The test bank allows you to customise the bank of questions to meet your individual teaching needs and add/revise questions as needed. It provides a comprehensive set of multiple choice and short answer questions.

Quiz Answers

Answers to the quiz section at the end of each chapter which test the students understanding of the key concepts can also be found on the website

Spread sheets

Throughout the text data and Excel worksheets are referred to illustrate the theory, these are located on the supporting website.

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