

BAYLOR UNIVERSITY
HANKAMER SCHOOL OF BUSINESS
DEPARTMENT OF FINANCE, INSURANCE & REAL ESTATE

Finance 4366: Options, Futures, and Other Derivatives, Spring 2023
Tuesday and Thursday, 2 - 3:15 pm in Foster 303

Instructor: Dr. James R. Garven
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Course website: fin4366.garven.com
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Office Hours: 3:30-4:30 TR, or
by appointment
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1 Required Texts and Materials

- [John C. Hull, Options, Futures and Other Derivatives, 11th Ed, Prentice Hall](#). Be sure to read “[Required Text Materials in Finance 4366](#)” prior to making a textbook purchase.
- [Readings](#) (assigned from sources other than the textbook) are distributed from [the course website](#).
- *Wall Street Journal* (*WSJ*). If you haven’t already signed up for your free *WSJ* student membership, then do so by going to <https://wsj.com/ActivateBaylor>. Once you have created your *WSJ* account, you can log in [via the web](#) or if you prefer, either the [iOS](#) or [Android](#) app.

2 Prerequisites

The only course prerequisite for Finance 4366 is Finance 3310. However, since Finance 4366 is a highly quantitative course, you must be “up to speed” in mathematics and statistics. The mathematics and statistics topics used in Finance 4366 are listed in the blog posting entitled “[Calculus and Probability & Statistics recommendations](#)” where links to Khan Academy tutorials for each of these topics are provided.

3 Course Description

During the past several decades, there has been explosive growth in the use of derivative securities such as options and futures for managing risk. Such securities are commonly referred to as “derivatives” because their values depend on the values of other assets. This course presents a conceptual framework for understanding how to price derivatives and design risk management strategies.

4 Learning Objectives

After completing this course, students should:

- Acquire a better knowledge of the specialized terminology of financial markets;
- Understand the nature of financial derivatives;
- Know how arbitrage pricing works and how prices are formed in competitive markets;
- Comprehend the concept of replicating portfolios or transactions;
- Understand how forward and futures contracts are priced in a competitive market;

- Know the different types of options and their characteristics and payoffs;
- Understand how the boundary conditions for option prices are determined;
- Know the ways the binomial and the Black-Scholes-Merton option pricing models are used to determine the fair value of a simple option;
- Be able to incorporate extensions to the basic models used to price futures and options to take account of dividends and, in the case of options, early exercise; and
- Be able to apply their knowledge of arbitrage pricing methods for options and futures to undertake simple financial engineering.

5 Grade Determination

The final course numeric grade is based on the following equation:

$$\text{Final Course Numeric Grade} = .10(\text{Attendance and Participation}) + .10(\text{Quizzes}) + .20(\text{Problem Sets}) + \text{Max} \{ .20(\text{Midterm Exam 1}) + .20(\text{Midterm Exam 2}) + .20(\text{Final Exam}), .20(\text{Midterm Exam 1}) + .40(\text{Final Exam}), .20(\text{Midterm Exam 2}) + .40(\text{Final Exam}) \}$$

Since the final exam is comprehensive, this grading scheme allows students to redeem themselves on the final should they perform poorly on either of the midterms.

There will be two midterm exams. The date for the first midterm exam is February 20 (in class), and the date for the second midterm exam is April 2 (also in class). The dates for the two midterm exams are subject to change at the instructor's discretion. The date and time for the Finance 4366 final exam is set according to the [official university calendar](#).

Final Course Letter Grade. The final course letter grade will be based on the following schedule of final course numeric grades:

A	93 – 100%	C	73 – 77%
A-	90 – 93%	C-	70 – 73%
B+	87 – 90%	D+	67 – 70%
B	83 – 87%	D	63 – 67%
B-	80 – 83%	D-	60 – 63%
C+	77 – 80%	F	<60%

6 Contact Information

My phone number (which also supports text messaging) is (254) 307-1317. I can also be reached by email at James.Garven@baylor.edu.

7 Attendance and Participation

I expect students to attend class regularly, punctually, and meaningfully take part in class discussions and Q&A. To earn academic credit in Finance 4366, students are required (as per the [Hankamer Attendance Policy](#)), to attend at least 75 percent of all scheduled class meetings. If you cannot attend a scheduled class meeting for health/safety reasons, then take the following steps:

- Complete the [excused health/safety absence request form](#) for the scheduled class meeting (or meetings) you will miss.

- Email appropriate documentation (e.g., such as a copy of a signed medical excuse provided by a licensed medical professional) to fin4366@gmail.com.

8 Other Course Policies

8.1 Grade Appeals

Graded assignments and exams will be returned to students no more than one week after the assignment deadline or the exam date. If you feel that a graded assignment or exam has not been fairly evaluated, then you may submit an appeal for the assignment or exam to be regraded. To be considered, your appeal must be submitted no later than two weeks after the exam date or the assignment's due date. Any appeals submitted beyond this deadline will not be considered.

If you decide to submit an appeal, email it to fin4366@gmail.com with the following subject header: "Grade Appeal for Finance 4366". Include a clearly scanned or photographed copy of the question(s) that is (are) to be regraded, a copy of your answer(s), and an explanation as to why you think the question(s) merit(s) re-grading. I will then take it upon myself to regrade the question(s). Keep in mind that re-grading implies three possible outcomes: a higher grade, the same grade, or a lower grade.

The appeal procedure described above constitutes the "Conference with Faculty Member" requirement set forth in [Baylor's Academic Appeals Policy and Procedure document](#).

8.2 Electronics Policies

The following electronics policies will be strictly enforced: 1) laptops and tablets may not be used in class without the instructor's permission, and 2) calling or texting during class meetings is prohibited.

8.3 Late Work

[Assigned problem sets](#) are due no later than the beginning of class on the day on which they are assigned. Problem sets must be turned in via Canvas at or before this time; otherwise, you will not receive any credit for the problem set. Furthermore, no make-ups are allowed for any missed quizzes (note: these rules do not apply in cases involving medical or family emergencies).

9 Course Blog

Finance 4366 has a course blog located at derivatives.garven.com, which provides a convenient and timely way for me to share important course-related announcements outside the classroom. Every student enrolled in Finance 4366 is provided with an email subscription to derivatives.garven.com.

10 Course Schedule

My plan is to cover [selected chapters from the textbook](#). I will also assign other readings that are available from the [readings page](#) on the course website. Although the course schedule is subject to change, the [lecture notes page](#) on the course website effectively serves as a course calendar since it lists the sequencing of course material for the entire semester.

11 Academic Honesty and Integrity

Plagiarism, or any form of cheating, involves a breach of student-teacher trust. This means that work on quizzes, problem sets, and exams submitted under your name is expected to be your own, neither composed by anyone else as a whole or in part, nor handed over to another person for complete or partial revision. Instances of plagiarism, or any other act of academic dishonesty, will be reported to the Honor Council and may result in failure of the course or expulsion from the University.

[Baylor's honor code](#) and the [Finance 4366 honor code](#) are important resources for understanding various types of academic dishonesty, and I expect my students to be intimately familiar with both of these documents. The standards set forth in both of these honor codes will be applied to all of your work in Finance 4366.

12 Baylor University Title IX

Baylor University does not discriminate on the basis of sex or gender in any of its education or employment programs and activities, and it does not tolerate discrimination or harassment on the basis of sex or gender. If you or someone you know would like help related to an experience involving sexual or gender-based harassment, sexual assault, sexual exploitation, stalking, intimate partner violence, or retaliation for reporting one of these type of prohibited conduct, please contact the Title IX Office at (254)710-8454 or report online at www.baylor.edu/titleix.

The Title IX office understands the sensitive nature of these situations and can provide information about available on- and off-campus resources, such as counseling and psychological services, medical treatment, academic support, university housing, and other forms of assistance that may be available. Staff members at the office can also explain your rights and procedural options if you contact the Title IX Office. You will not be required to share your experience. **If you or someone you know feels unsafe or may be in imminent danger, please call the Baylor Police Department (254-710-2222) or Waco Police Department (9-1-1) immediately.** For more information on the Title IX Office, the *Sexual and Gender-Based Harassment and Interpersonal Violence policy*, reporting, and resources available, please visit www.baylor.edu/titleix.