

**BA 4825/5825 and IAM 520 – Financial Derivatives**  
**MW 09:15-10:30 @ G107**

<b>Instructor:</b>	Dr. Seza Danişoğlu
<b>Office:</b>	FEAS Building B, H 112
<b>Phone:</b>	210 2035
<b>E-mail:</b>	<a href="mailto:seza@metu.edu.tr">seza@metu.edu.tr</a>
<b>Office Hours:</b>	Monday and Wednesday: 10:45 – 11:45, or, strictly by appointment
<b>Course Web Page:</b>	<b>TBA</b>

**Course Description:**

This course is designed to provide a solid foundation in the principles of financial derivatives and risk management. It attempts to strike a balance between institutional details, theoretical foundations, and practical applications. The course equally emphasizes pricing and investment strategies in order to motivate students to start thinking about risk management in financial markets. Parallel to the already increasing attempts to integrate derivative securities and markets into the Turkish financial system, it is believed that this course will fill a gap and students will be exposed to a rather comprehensive coverage of theory and application in the derivatives area. This course is expected to give the students a “competitive advantage” when they enter the job market since “derivatives” is a “hot topic” nowadays and BA4825/5825/IAM520 is one of the very few courses offered on this topic in Turkey!

**Course Student Learning Objectives: (CSLO)**

*Upon successful completion of this course, students should be able to:*

**Course Specific Skills:**

1. Understand how the various parts of a business and its environments interact with the financial decisions of the firm
2. Understand the structure of the options markets and the motivation behind creating option contracts
3. Develop skills in option pricing and understand the basic principles that affect the value of an option contract
4. Understand how option contracts can be used to manage financial risk
5. Understand the structure of the futures and forward markets and the motivation behind creating these contracts
6. Develop skills in futures pricing and understand the basic principles that affect the value of a futures contract
7. Understand how futures contracts can be used to manage financial risk
8. Understand the structure of the interest rate derivatives markets and the motivation behind creating such contracts
9. Develop skills in interest rate derivatives pricing and understand the basic principles that affect the value of such contracts
10. Understand how interest rate derivatives can be used to manage financial risk

**Discipline Specific Skills:**

11. Develop skills in the valuation of derivative securities
12. Develop skills in setting up hedge positions
- Develop an understanding of:
13. The role played by the derivative instruments in financial markets
14. How firms approach the practice of risk management

**Personal and Key Skills:**

15. Develop problem solving skills
16. Develop writing and discussion skills
17. Learn to apply the abstract concepts learned in the classroom to everyday financial decisions made by corporations

**Course Prerequisites:**

Students who have completed any one of the following courses with the stated minimum semester grade are allowed to register for this course:

BA 2802 (DD) or BA 5802 (CC) or IAM 521 (CC)

**Learning and Teaching Methods:**

This course is going to make use of formal lectures, in-class discussions and problem solving via homework assignments and during recitation hours.

**Required Reading:**

Chance, D. M. and R. Brooks, An Introduction to Derivatives and Risk Management, Cengage, USA.  
9<sup>th</sup> Edition, 2013 (ISBN: 9781305104969) **OR**  
10<sup>th</sup> Edition, 2016 (ISBN: 9781305104969)

**Supplementary Reading:**

You will need a lot of practice to feel comfortable with solving problems on options, futures and other derivatives. The METU Library carries a variety of books written on derivatives. It is a very good idea to check out some of these books and exercise your brain muscle by solving the end-of-chapter problems that are provided in these books.

**Assessment and Grading:**

Form of Assessment	% Contribution	Size of the assessment	CSLOs covered by this assessment	Feedback Method
Midterm Examinations (Three Examinations)	72	135-minute essay-type examinations	1 through 17	Written and oral (in class)
In-class quizzes	18	15-minute essay-type quizzes	1 through 17	Written
Attendance (Will not be taken on days when there is a quiz)	10	Class participation during regular lectures	1 through 17	Written and oral (in class)

No "extra" work above the aforementioned will be accepted or credited.

**Makeup Examinations:** There will be no make-ups for exams or assignments. If you have a time conflict, please contact me ahead of time.

**Important Note About Re-sit (Bütünleme) Exams:** Please note that re-sit exams are no longer given at METU.

**Incompletes:** A grade of incomplete will not be granted except for the most extreme circumstances and only after stringent verification and approval by the Department. A grade of incomplete will be granted only as a result of circumstances beyond the student's control. A grade of "I" is not given in lieu of an "FF".

**Course Policies:**

**Course Requirements:** The students will be assigned readings from the textbook and are expected to come to class prepared and ready to take part in class discussions.

**Attendance is mandatory in this class.** Past experience repeatedly demonstrated that students who regularly attend class and read the chapter assignments perform significantly better than students who have an intermittent attendance and/or who do not keep current in reading the chapters.

**Reading Assignments:** The following pages give the schedule for the reading assignments. The lectures will stress the most important and/or most difficult material. Appendices are required only if they are assigned.

**Presentation Slides:** A copy of the presentation slides is available at the course web page. These slides can be used as chapter summaries and utilized while taking down notes during class.

**Recitation Hour:** There is going to be a weekly recitation hour. A teaching assistant from the department is going to work on sample problems on the topics that are covered during class from the previous weeks. These sample problems are made available at the course web page one day before the recitation hour so that you can take a look at them and may be even attempt to solve them before coming to class. Attendance to the recitation hour is not mandatory but highly recommended.

**STUDENT DISABILITIES:** Any student, who, because of a disabling condition, may require special arrangements in order to meet course requirements, should contact the instructor as soon as possible. Students should present the appropriate documentation from the university's Disability Support Office (Engelsiz ODTÜ Birimi, ODTÜ Kütüphanesi, Solmaz İzdemir Salonu, Tel: 210.7196; [engelsiz@metu.edu.tr](mailto:engelsiz@metu.edu.tr)) verifying their disability, and outlining the special arrangements required. Please note that no accommodations will be provided to the disabled students prior to the completion of this approved University process.

**ACADEMIC DISHONESTY:** The Department of Business Administration has no tolerance for acts of academic dishonesty. Such acts damage the reputation of METU, the department and the BS/MBA degree and demean the honest efforts of the majority of the students. The minimum penalty for an act of academic dishonesty will be a zero for that assignment or exam.

**CHEATING:** All university, faculty/institute, and department principles on academic honesty will be strictly enforced. The usual consequence for academic dishonesty is failure of the course and referral of the case to the Dean of the Faculty or the Graduate School of Social Sciences for additional disciplinary action. Examinations are individual and are to be completed without outside assistance of any sort. Persons observed cheating during examinations will receive a failing grade in the course. Homework assignments are individual, unless otherwise specified by the instructor, and are to be completed without outside assistance of any sort, as well. Persons observed cheating in their homework assignments will receive a score of zero for the portion of the semester grade that is allocated to such assignments.

**PLAGIARISM:** The instructor assumes that students will do their own work. By placing their names on assignments (individual or team), students are affirming that the contents are their original work. Any previous work available from files or past students, as well as materials available on the internet may be used only as a suggestive model. Violation of this provision will be considered as unethical behavior, subject to disciplinary action. If you have any doubt about the use of a specific material, see the instructor ahead of time. Any material used from outside sources should be referenced appropriately. Persons observed to plagiarize while preparing assignments will be referred to the Graduate School of Social Sciences for additional disciplinary action and also they will receive a score of zero for the portion of the semester grade that is allocated to such assignments.

Please read the following documents carefully:

Turkish: [ODTÜ Akademik Dürüstlük Kılavuzu](#)  
English: [Academic Integrity Guide for Students](#)

Turkish: [ODTÜ Sınav Kuralları Kılavuzu](#)  
English: [Examination Rules Guide for Students](#)

## METU HONOR CODE

Every member of METU community adopts the following honor code as one of the core principles of academic life and strives to develop an academic environment where continuous adherence to this code is promoted.

"The members of the METU community are reliable, responsible and honorable people who embrace only the success and recognition they deserve, and act with integrity in their use, evaluation and presentation of facts, data and documents."

**CIVILITY IN THE CLASSROOM:** Students are expected to assist in maintaining a classroom environment which is conducive to learning. In order to assure that all students have an opportunity to gain from time spent in class, unless otherwise approved by the instructor, students are prohibited from using laptop computers and cellular phones, making offensive remarks, reading newspapers, sleeping, or engaging in any other form of distraction. Inappropriate behavior in classroom shall result, minimally, in a request to leave class.

Past observations showed that the METU classroom experience is improved when the following are true:

**Students arrive on time.** Timely arrival ensures that classes are able to start and finish at the scheduled times. Timely arrival shows respect for both fellow students and faculty and it helps to create a better learning environment by reducing avoidable distractions.

**Students are fully prepared for each class.** Much of the learning in this course takes place during classroom discussions. When students are not prepared, they cannot contribute to the learning process. This affects not only the individual but also the classmates who count on them.

**Students respect the views and opinions of their colleagues.** Disagreement and debate are encouraged; however, intolerance for the views of others is unacceptable.

**Laptops, tablets, phones and other wireless devices are turned off.**

**STUDENT EXCUSES:** Unless you inform me in advance, I will not excuse you from any of the grade requirements. At the same time, this does not mean that I will allow you to miss a test or an assignment with any excuse that you present to me. Please note that the excuse is acceptable for only the most extreme circumstances and only after stringent verification and approval by the Department.

**KNOW YOUR RIGHTS AND RESPONSIBILITIES!** [Academic Rules and Regulations](#)

**NOTE THE IMPORTANT DATES ON THE ACADEMIC CALENDAR!** [Academic Calendar](#)

The instructor assumes that students who attend the next class have understood and accepted to agree with all the requirements and rules of this course.

Notes:

- **Usage of cell phones, laptops, tablets and any other electronic devices is strictly prohibited during class.** Please be courteous to your classmates and me and make sure that your phones are on silent mode before the class begins.
- Please arrive on time and do not enter the classroom if I already have closed the classroom doors. If you have to leave early, please inform me in advance. If, due to uncontrollable circumstances, you end up being late for class, please wait outside until the first in-class break during which I will open the classroom door and let you in.
- You are encouraged to drop by my office during office hours for questions, concerns, or suggestions. Outside the office hours, please make an appointment with me in advance, before or after the class, via phone or e-mail. For quick questions that you may have, note that e-mailing is a very effective means of communicating with me.

Good luck to all of you and let's have a very enjoyable semester together!! SD

## Don't be Trashy. Recycle.

Do not throw items away in the trash that should go into the recycling bin.

Show a little class.

**REFUSE, REDUCE, REUSE, REPURPOSE, RECYCLE!**



The following table gives the tentative schedule for the semester. The lectures will stress the most important and/or most difficult material. Appendices are required only if they are assigned. The students are required to read the chapters and appendices before they are covered in class.

Tentative Course Schedule			
Month	Day	Topic	Reading (Based on 9/E)
		<b>Part I: Options</b>	
<b>February</b>	16	Introduction The Structure of Options Markets	Chapter 1 Chapter 2
	18	The Structure of Options Markets (Cont'd) Principles of Option Pricing	Chapter 2 Chapter 3
	23	Principles of Option Pricing (Cont'd)	Chapter 3
	25	Principles of Option Pricing (Cont'd)	Chapter 3
<b>March</b>	2	Principles of Option Pricing (Cont'd)	Chapter 3
	4	Option Pricing Models: The Binomial Model	Chapter 4
	9	Option Pricing Models: The Binomial Model (Cont'd)	Chapter 4
	11	Option Pricing Models: The Black-Scholes-Merton Model	Chapter 5
	16	Option Pricing Models: The Black-Scholes-Merton Model (Cont'd)	Chapter 5
	18	Option Pricing Models: The Black-Scholes-Merton Model (Cont'd)	Chapter 5
	23	Basic Option Strategies	Chapter 6
	25	Basic Option Strategies (Cont'd)	Chapter 6
	<b>27</b>	<b>Midterm 1 @ 18:00 Chps 1, 2, 3, 4, 5</b>	1, 2, 3
	30	Advanced Option Strategies	Chapter 7
<b>April</b>	1	Advanced Option Strategies (Cont'd)	Chapter 7
	<b>Part II: Forwards, Futures, and Swaps</b>		
	6	The Structure of Forward and Futures Markets	Chapter 8
	8	Principles of Pricing Forwards, Futures, and Options on Futures	Chapter 9
	13	Principles of Pricing Forwards, Futures, and Options on Futures (Cont'd)	Chapter 9
	15	Futures Arbitrage Strategies	Chapter 10
	20	Futures Arbitrage Strategies (Cont'd)	Chapter 10
	22	Futures Arbitrage Strategies (Cont'd)	Chapter 11
	27	Forward and Futures Hedging, Spread, and Target Strategies	Chapter 11
	29	Forward and Futures Hedging, Spread, and Target Strategies (Cont'd)	Chapter 11
<b>May</b>	4	Forward and Futures Hedging, Spread, and Target Strategies (Cont'd)	Chapter 11
	<b>Part III: Advanced Topics</b>		
	6	Swaps	Chapter 12
	<b>8</b>	<b>Midterm 2 @ 18:00 Chps 6, 7, 8, 9</b>	4, 5, 6
	11	Swaps (Cont'd)	Chapter 12
	13	Swaps (Cont'd)	Chapter 12
	18	Interest Rate Forwards and Options	Chapter 13
	20	Interest Rate Forwards and Options (Cont'd)	Chapter 13
	25	<b>No class: Break for the bayram</b>	
	27	<b>No class: Break for the bayram</b>	
<b>June</b>	1	Interest Rate Forwards and Options (Cont'd)	Chapter 13
	3	Interest Rate Forwards and Options (Cont'd)	Chapter 13
	<b>XX</b>	<b>Midterm 3 @ XX Chps 10, 11, 12, 13</b>	7, 8, 9, 10