

**UNIVERSITY OF WATERLOO**  
**Department of Economics**

ECON 372  
Business Finance II  
Winter 2011

Instructor: Helen Hui Huang  
Office: HH 104  
Class time: MW 5:30pm – 6:50pm  
Classroom: DWE 1501  
Office hours: MW 10:30am – 11:30am or by appointment  
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TA: to be announced

Prerequisites: Econ 371; or for Mathematics students only Econ 101, 102 and ACTSC 371,  
Anti-requisites: AFM 371/ACC 372.

**Course description:**

A wide variety of complex financial instruments have been developed over the past three decades. Many of these products fall under the category of derivatives, instruments whose values derive from other more fundamental assets such as commodities, currency exchange rates, stocks (equities) and bonds (interest rates). The building blocks for many of these complex financial instruments are four basic derivative instruments – forwards, futures, options and swaps. The purpose of this course is to introduce participants to derivative securities with particular focus on these basic instruments. Towards this end, we will examine the structure of these instruments, their valuation, and their use for speculation and risk management. To success in this course, problem-solving technique is essential.

**Texts:**

The textbook for this course is

[\*\*\*Fundamentals of Futures and Options Markets\*\*\*](#), Sixth Edition, John C. Hull, Prentice Hall, 2007.

(A newer edition, seventh edition, has come out. But since what we cover is pretty much the same, we use the 6<sup>th</sup> edition.)

The [\*\*\*Solutions Manual/Study Guide\*\*\*](#), Sixth Edition, which contains solutions to end-of-chapter questions and problems (*but not the assignment questions*) is **recommended**.

Assignments and other materials will be posted on the UW ACE website located at <https://uwangel.uwaterloo.ca/uwangel/frames.aspx>.

**Assessment:**

2 assignments: due dates to be announced in class 10% each  
In-class midterm: February 16, 2011 30%  
Final Exam: to be scheduled by registrar's office 50%

Please note the following:

- Assignments are due **at the beginning of class** on their due date. No late assignments will be accepted (implying a zero score.)
- The in-class midterm missed, for any reason, will not be rescheduled. If you miss the midterm due to illness and have valid documentation (approval required, please follow the instructions: [http://www.registrar.uwaterloo.ca/students/accom\\_illness.html](http://www.registrar.uwaterloo.ca/students/accom_illness.html)), you may shift the weight of the midterm to the final exam. Note that you must provide the **original** medical document(s) **within two weeks** of the midterm. The midterm missed without appropriate arrangement with the instructor will receive a zero score.
- The final exam period for Winter Term 2011 is Apr 8 to 21, 2011. Students are expected to be available during this time. Travel plans are **not** an acceptable ground for granting alternative final exam times. <http://www.registrar.uwaterloo.ca/exams/finalexams.html>
- The department has a centralized "make-up" date for final exams. This is not an alternate date, in the sense that you can choose when to write. You may, with the instructor's and department's permission, be able to write this make-up exam if you have **valid and documented reason** to miss the scheduled final exam. Please provide **original** documents (no photocopies) **within five calendar days** of the final exam.

**Course Content:**

The material to be covered in this course will be drawn from the following list:

- Introduction (Chapter 1)
- Mechanics of Futures and Forward Markets (Chapter 2)
- Interest Rates (Chapter 4)
- Determination of Futures and Forward Prices (Chapter 5)
- Hedging Strategies Using Futures (Chapter 3)
- Mechanics of Options Markets (Chapter 8)
- Properties of Stock Options (Chapter 9)
- Trading Strategies Involving Options (Chapter 10)
- Binomial Trees (Chapters 11 and 16)
- The Black-Scholes-Merton Model (Chapter 12)
- Options in Stock Indices, Currencies and Futures (Chapter 13)
- Futures Options (Chapter 14)

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### **Academic Integrity:**

**Academic Integrity:** In order to maintain a culture of academic integrity, members of the University of Waterloo are expected to promote honesty, trust, fairness, respect and responsibility.

**Discipline:** A student is expected to know what constitutes academic integrity, to avoid committing academic offences, and to take responsibility for his/her actions. A student who is unsure whether an action constitutes an offence, or who needs help in learning how to avoid offences (e.g., plagiarism, cheating) or about “rules” for group work/collaboration should seek guidance from the course professor, academic advisor, or the Undergraduate Associate Dean. When misconduct has been found to have occurred, disciplinary penalties will be imposed under Policy 71 – Student Discipline. For information on categories of offenses and types of penalties, students should refer to Policy 71 - Student Discipline, <http://www.adm.uwaterloo.ca/infosec/Policies/policy71.htm>

**Grievance:** A student who believes that a decision affecting some aspect of his/her university life has been unfair or unreasonable may have grounds for initiating a grievance. Read Policy 70 - Student Petitions and Grievances, Section 4, <http://www.adm.uwaterloo.ca/infosec/Policies/policy70.htm>

**Appeals:** A student may appeal the finding and/or penalty in a decision made under Policy 70 - Student Petitions and Grievances (other than regarding a petition) or Policy 71 - Student Discipline if a ground for an appeal can be established. Read Policy 72 - Student Appeals, <http://www.adm.uwaterloo.ca/infosec/Policies/policy72.htm>

### **Academic Integrity website (Arts):**

[http://arts.uwaterloo.ca/arts/ugrad/academic\\_responsibility.html](http://arts.uwaterloo.ca/arts/ugrad/academic_responsibility.html)

**Academic Integrity Office (UW):** <http://uwaterloo.ca/academicintegrity/>

### **Accommodation for Students with Disabilities:**

**Note for students with disabilities:** The Office for Persons with Disabilities (OPD), located in Needles Hall, Room 1132, collaborates with all academic departments to arrange appropriate accommodations for students with disabilities without compromising the academic integrity of the curriculum. If you require academic accommodations to lessen the impact of your disability, please register with the OPD at the beginning of each academic term.