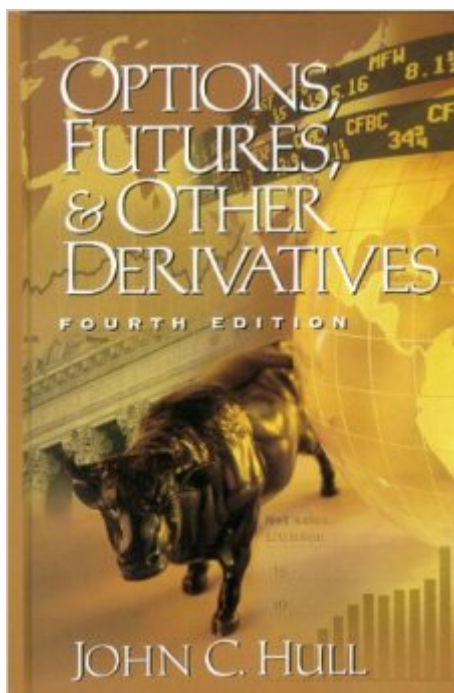


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# Options, Futures, And Other Derivatives (4th Edition)



## Synopsis

For undergraduate and graduate courses in Options and Futures, Financial Engineering and Risk Management, typically found in business, finance, economics and mathematics departments. Also suitable for practitioners who want to acquire a working knowledge of how derivatives can be analyzed. This best seller represents how academia and real-world practice have come together with a common respect and focus of theory and practice. It provides a unifying approach to the valuation of all derivatives--not just futures and options. It assumes that the reader has taken an introductory course in finance and an introductory course in probability and statistics. No prior knowledge of options, futures contracts, swaps, and so on is assumed.

## Book Information

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## Customer Reviews

The author has written a nice, lively elementary text on mathematical finance. This book can serve as an excellent launching point into the topic. For the next step in the reader's development, I recommend the very good intermediate level treatment by Bjork in *Arbitrage Theory in Continuous Time*. As a capstone for advanced study, I recommend the advanced treatment of Musiela and Rutkowski's *Martingale Methods in Financial Modelling*. Hull starts out with several chapters on the basics of the derivative contracts in his study. The contracts introduced are forward and futures contracts, interest rate swaps, and equity options. The basic definitions of each contingency contract is given, as well as characteristics of the markets where these contracts trade. Some basic trading strategies are also studied. The study of the option pricing model problem begins in earnest in Chapter 10. The section on one-step binomial tree model leads to a very intuitive description of

risk-neutral valuation. Chapter 11 introduces continuous time stochastic processes in a very intuitive setting. To avoid the hard-core Ito calculus, the author motivates the stochastic differential by considering difference equations. This is a nice technique and makes the material accessible to the beginner. The next highlight is a statement of Ito's lemma. This is not given in full generality, but only stated precisely as needed for Black-Scholes calculations.

This review is written for many of those switching to quantitative finance from other fields. Hull's book will become an essential foundation-builder for such people. Let's assume you want to become a quantitative analyst or a risk manager switching from another, preferably quantitative, field. Then in order to get a job you need to have the following: 1. Knowledge of derivatives and markets; 2. Knowledge of statistical methods and data analysis with applications in finance; 3. Computational methods supported by software such as C++ and R to be able to apply theoretical knowledge obtained in 1 and 2; 4. Proof that you have decent understanding of finance through obtaining a designation such as PRM (Since, under our assumption, you enter finance from a different field, you don't have work experience. That is why PRM will be the most suitable for you as you will just need to be well prepared academically to pass the exams and get the designation). The book under review will be absolutely essential for you for clearing steps 1 and 4. It has been written with the care for the reader in mind. Hull, in contrast to many other authors, does not try to show off his intellectual superiority by using complicated and abstract language which would normally be designed to make the reader feel miserable. In contrast, he wants the reader to become knowledgeable by carefully guiding him through complicated topics with numerous examples and explanations. The friendliness of exposition does not mean that the rigor is lost though; the book is written with the perfect rigor, but it is achieved without making it too dry and abstract. The scope of coverage is amazing: all major aspects of derivatives and markets connected with them have been covered.

This is the definitive introduction to derivatives. As evidence of its relevance, the following chapters are assigned to Financial Risk Manager (FRM) candidates: Hedging Strategies using Futures (Chapter 3), Determination of Forward and Futures Prices (5), Interest Rate Futures (6), Swaps (7), Properties of Stock Options (9), Trading Strategies Involving Options (10), Binomial Trees (11), Black-Scholes-Merton Model (13), Greeks (15), Volatility Smiles (16), Exotic Options (22). Given that this is an expensive text, the most frequent question I get is, do I need to buy the latest edition? Perhaps you do not: the updates from fifth to sixth edition, and from sixth to seventh edition, have

both been modest "version" upgrades. Here is a rule-of-thumb: the more introductory the topic (i.e., the earlier the chapter), the less likely you want/need the upgrade. The early chapters on futures, hedging, interest rate futures, swaps, and option pricing have barely changed since the fifth edition. Further, from what i can tell, the end-of-chapter questions are largely the same/similar. In regard to the seventh, in addition to a number of refinements (e.g., some reorganization), the two noticeable differences are: a new chapter on valuation of employee stock option (a particular expertise of Hull's) and more material on certain credit derivatives (CDOs, credit default swap) including a bit more help on Gaussian copula. However, in regard to credit derivatives, in total, Hull gives a quick tour which may be challenging to the new learner. It is maybe not the best place to start for credit derivatives per se. But, this is the gold standard, a work of art, as far as finance texts go. It may be an introduction but it offers encyclopedic breadth.

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