

## Preface to the New Edition

**T**hose who are familiar with the first edition know that the book was a compendium of essays I wrote and posted on the Internet, back at a time when the Internet was just a toddler. Having labored over these essays and then given them away, I got this crazy idea to put them into a book and charge people money. Needless to say, the free essays were more popular than the book, but the publisher and I have been satisfied with the success of *Essays in Derivatives*, enough so that we have undertaken to update this book.

The first edition was published in 1998, and here we are about 10 years later. The derivatives business has gotten older, smarter, and more sophisticated. I have changed universities and at least gotten older. A lot of what I said in 1998 just won't cut it today. And there are a lot of topics that aren't quite as interesting today as they were in 1998, plus some that are important today that were not so back then. Thus, an updating seemed like an important thing to do.

My primary objective in a book like this is to create something about derivatives that is easy to read. Derivatives can be a painful subject to learn, and many legal pads are used up, sometimes frustratingly, in working through some of the principles covered in technical derivatives books. This book is different. While I do not advise that you curl up with it by a warm fire, a loyal dog, and a loved one, I do think you can relax in an easy chair and read it without pen and paper at your side. To that extent, this book is unique. Rarely will you find a derivatives book without equations. (OK. Technically there *are* some equations, but they are mostly buried within sentences and don't jump out at you like those big offset monstrosities you see in most derivatives books.) Of course, the absence of equations comes at a cost. You cannot get yourself up to a sophisticated level in derivatives by reading this book, but you can make a great deal of headway. Learning derivatives entails climbing a steep learning curve. Getting at least part of the way there with the minimum amount of mental anguish is a major accomplishment and provides encouragement for taking the next and somewhat harder step.

For those who have read the first edition, I hope you will use this version as an opportunity to brush up. I have removed a few essays that seemed outdated, combined a few others, and added essays on why derivatives are used, volatility derivatives, weather derivatives, forward and futures pricing, risk management in organizations, worst practices in derivatives, and best practices in derivatives. Every essay has been at least partially polished if not substantially rewritten. In addition, at the end of each essay I have now provided a few practice questions so you can see if you remember what you read. (The answers are at the back of the book.) In addition, the seven major sections of the book now contain short overviews to alert you to what's coming up. Reading lists have been updated to include material that has emerged in the last 10 years.

If you are already an expert in derivatives, this book will not teach you much. It is quite elementary. But if anyone has ever asked you where to get started (and I have certainly gotten that question many times), this book should be a good answer. Take it for what it is intended to be: an easy-to-read introduction. No more, no less. For those trying to learn the topic for the first time, read it and see if you don't agree: A basic understanding of derivatives need not be hard, and it can be fun to read about. (OK. Maybe "fun" isn't the word. Maybe it's "enjoyable.") And if it isn't, you will at least have saved some money over the monster tome you probably would have bought if this book hadn't come along.

As usual, many people contribute to the production of a book. I want to thank the Wiley folks: Bill Falloon, Emilie Herman, Laura Walsh, Pamela van Giessen, and Christina Verigan. I also want to thank Frank Fabozzi for his publishing of the first edition of this book and his encouragement for this revision. I also thank my family: Jan, Kim, Ashley, Michael, Joel, Kurt, Sadie, and Hunter. (Note: Some of these are dogs, and they do get credit. Writing a book is hard enough without a little laughter.)

As always, I invite your comments and suggestions. Send them to me at [dchance@lsu.edu](mailto:dchance@lsu.edu). With enough praise for encouragement or complaints to fix, maybe there'll be a third edition. But give me another 10 years, please.

DON M. CHANCE, PH.D., CFA  
Baton Rouge, Louisiana  
March 2008