



Preface

DON CHANCE

As this book moves into its tenth edition, I continue to be amazed at how much has changed in the world of derivatives since the first edition, copyright 1989. But then, the entire world has changed. We had no real exotic derivatives back then, but we also had no smartphones and a lot of other technology we take for granted. And although life has generally gotten better for the human species, it seems to have gotten a bit more dangerous, so we take far more security precautions than ever—likewise with derivatives. The growing emphasis on practicing good risk management has been paralleled by the growing need to improve the safety and security of people, so the changes in the derivatives world are somewhat correlated with changes in life in general.

Although some would argue that derivatives make the financial world more dangerous, we would argue that the dangers are merely more noticeable. When derivatives are misused, stories hit the news and we automatically assume that new laws are needed. When derivatives are used successfully, as they almost always are, there is no story in the news. So, Robert and I continue to defend the tools, while believing that a solid educational foundation offers the best chance of ensuring that the user will not hurt himself or someone else with the tool.

Once again, I express my appreciation to my wife Jan for many years of love and support. Our derivatives, otherwise known as our children, are long since gone from home and managing their own derivatives, but they too play an indirect role in the success of this book. I also thank my students and colleagues who over the years have asked many challenging questions that contribute to my own body of knowledge that plays a role in this book.

ROBERT BROOKS

With the rapid changes in technology along with significant changes in the financial market infrastructure, the need for quality content on financial derivatives and risk management has never been greater. It is a privilege for me to continue collaborating with Don on such a successful book. My goal remains to aid students in understanding how to make financial derivatives theories work in practice. The financial derivatives and risk management subject area is a rapidly changing field that provides those who learn to navigate its complexities the opportunity for a rewarding career. By straddling the fence between the academic community and the practitioner community, I seek to continually enhance our book's quest to equip the next generation of financial risk managers.

I would like to encourage college students and others reading this book to consider a rewarding career in this field of study. Whether serving in a corporation, a financial services firm, or an investment management company, the ability to provide wise financial counsel inevitably leads to a fulfilling career. Knowing that you have contributed to protecting your firm from inappropriate financial risk or investing in an unsuitable strategy for your clients is both financially rewarding and personally gratifying.

I am deeply grateful to the unwavering support of my wife Ann. We have six children, two daughters-in-law, and one grandchild who provide constant opportunities to refine teaching financial principles as well as applying risk management in practice.

My family is a constant source of encouragement, and they are all very supportive of my activities related to this book.

DON AND BOB

We would like to thank Mike Reynolds, Executive Editor, Finance, for his support over the years and for solving in a timely manner every problem that arose during the project. We would also like to thank Marketing Manager Heather Mooney, to whose expertise we trust the future sales of the book.

We would like to thank all the people over the years who have both taught from this book and learned from it. They have, all along, generously provided constructive comments and corrections. After over 25 years, this list of names is too long to print without leaving someone out. So to all of you unnamed heroes, we express our thanks.

We used to believe that the errors in a book should, through attrition over the years, disappear; however, we have learned otherwise. Although no one wants errors to remain, if you ever find a book in its tenth edition without any errors, you can be assured that the author is simply correcting old material and not keeping the book up to date. With a field as dynamic as derivatives, extensive changes are inevitable. Despite Herculean efforts to cleanse this work, there are ineluctably some errors that remain. We are fairly confident, however, that these are not errors of fact but merely accidental oversights and perhaps typos that did not get caught as we read and reread the material. Unlike many authors, who we think would rather hide known errors, we maintain a list of such errors on this book's website. (Go to www.cengagebrain.com and search ISBN 9781305104969.) If you see something that does not make sense, check the Web address mentioned above and see if it's there. If not, send us an email by using the *Contact Us* form on the book's website.

Or just send us an email anyway, whether you are students or faculty. Tell us what you like or don't like about the book. We would love to hear from you.

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HIGHLIGHTS OF THE TENTH EDITION

The following is a partial list of the features and updates in the tenth edition. For expanded descriptions of these and other updates as well as the book's organization, see the "Book Overview" section in Chapter 1:

- Located in selected chapters, new "Taking Risk in Life" features present real-life situations, illustrating the application of risk management principles for decisions in general.

- The tenth edition includes a new and completely revised Chapter 2, Structure of Derivatives Markets. This chapter combines the old Chapters 2 and 8, which were the descriptive chapters on options and forward/futures markets, respectively. We have consolidated that material into a single more general Chapter 2 on derivatives markets. This change reflects the fact that the markets are not nearly as segmented as they were once. Indeed, the markets for options, swaps, futures, and forwards are essentially one large market.
- Chapter 11 contains a new section that addresses some recent changes in industry practice regarding estimating the appropriate risk-free rate and monetizing the various credit exposures.
- This edition also contains more than 120 figures and more than 90 tables, which reinforce the concepts presented in the text. Figures build on each other to illustrate links between stocks, risk-free bonds, futures, options, forwards, Black–Scholes–Merton call or put pricing, and similar concepts.
- “Making the Connection” boxes give students insight into how the chapter content applies directly to real-world financial decision making. Each box presents real business examples and actual market conditions to emphasize the practicality of chapter theories.
- End-of-chapter “Concept Checks” questions help students understand the basic materials covered in the text. Solutions to these questions are located at the end of the book and on the companion website, allowing students to check their own comprehension.

INSTRUCTOR SUPPLEMENTS

To access the instructor resources, go to www.cengage.com/login, log in with your faculty account username and password, and use ISBN 9781305104969 to search for and add instructor resources to your account Bookshelf.

- **Solutions Manual.** Revised by the authors, the Solutions Manual contains detailed solutions to Questions and Problems at the end of each chapter.
- **Test Bank.** The test bank, which has also been revised by the authors, contains over 440 multiple choice questions and over 440 true or false questions.
- **Cognero™ Test Bank.** Cengage Learning Testing Powered by Cognero™ is a flexible online system that allows you to author, edit, and manage test bank content from multiple Cengage Learning solutions; create multiple test versions in an instant; and deliver tests from your LMS, your classroom, or wherever you want. The Cognero™ Test Bank contains the same questions that are in the Microsoft® Word Test Bank. All question content is now tagged according to Tier I (Business Program Interdisciplinary Learning Outcomes) and Tier II (Finance-Specific) standards topic, Bloom’s taxonomy, and difficulty level.
- **PowerPoint Slides.** The PowerPoint Slides clarify content and provide a solid guide for student note-taking. These slides provide detailed and systematic coverage of the content of each chapter.

STUDENT RESOURCES

To access the following resources, go to www.cengagebrain.com, search 9781305104969, click “Free Materials” tab, and then click “Access Now”.

- **PowerPoint Slides.** The PowerPoint Slides clarify content and provide a solid guide for student note-taking. These slides provide detailed and systematic coverage of the content of each chapter.
- **Technical Notes.** Several Technical Notes are online derivations and proofs that take the material a step further than is covered in the book. These documents provide the instructor with the ability to easily assign more advanced material or allow certain students to take their study to a higher level. The number of these items has been increased from that in the ninth edition. Now with over 20 technical note references in the chapters, this feature allows more complex materials to be available to those faculty and students who want to explore the book's subject in more depth without distracting others.
- **Second City Case.** The Second City Case illustrates various strategies using index options. This case integrates a variety of materials covered in the option section of the book. The case is introduced as an end-of-chapter problem in Chapter 7.

The solutions to end-of-chapter Concept Checks, chapter references, and lists of symbols and important formulas are also available on the student companion website.

ADDITIONAL COURSE TOOLS

Cengage Learning Custom Solutions. Whether you need print, digital, or hybrid course materials, Cengage Learning Custom Solutions can help you create your perfect learning solution. Draw from Cengage Learning's extensive library of texts and collections, add your own original work, and create customized media and technology to match your learning and course objectives. Our editorial team will work with you through each step, allowing you to concentrate on the most important thing—your students. Learn more about all our services at www.cengage.com/custom.

The Cengage Global Economic Watch (GEW) Resource Center. This is your source for turning today's challenges into tomorrow's solutions. This online portal houses the most current and up-to-date content concerning the economic crisis. Organized by discipline, the GEW Resource Center offers the solutions that instructors and students need in an easy-to-use format. Included are an overview and timeline of the historical events leading up to the crisis, links to the latest news and resources, discussion and testing content, an instructor feedback forum, and a Global Issues Database. Visit www.cengage.com/thewatch for more information.