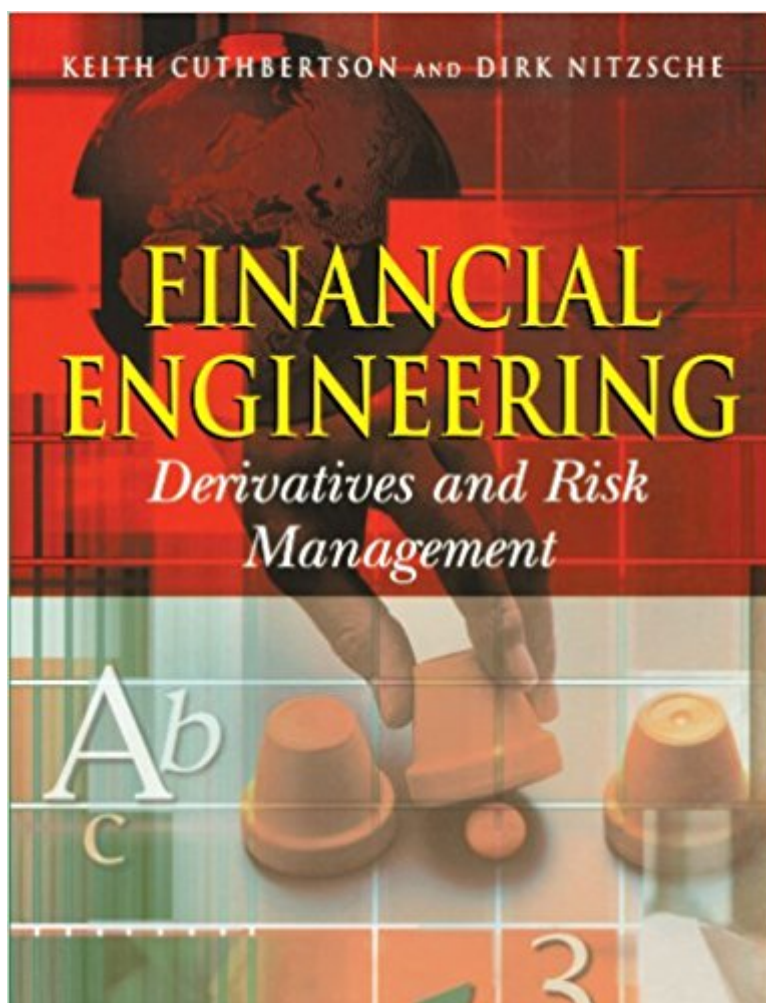


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# Financial Engineering: Derivatives And Risk Management



## Synopsis

This text provides a thorough treatment of futures, 'plain vanilla' options and swaps as well as the use of exotic derivatives and interest rate options for speculation and hedging. Pricing of options using numerical methods such as lattices (BOPM), Monte Carlo simulation and finite difference methods, in addition to solutions using continuous time mathematics, are also covered. Real options theory and its use in investment appraisal and in valuing internet and biotechnology companies provide cutting edge practical applications. Practical risk management issues are examined in depth. Alternative models for calculating Value at Risk (market risk) and credit risk provide the theoretical basis for a practical and timely overview of these areas of regulatory policy. This book is designed for courses in derivatives and risk management taken by specialist MBA, MSc Finance students or final year undergraduates, either as a stand-alone text or as a follow-on to *Investments: Spot and Derivatives Markets* by the same authors. The authors adopt a real-world emphasis throughout, and include features such as: \* topic boxes, worked examples and learning objectives \* Financial Times and Wall Street Journal newspaper extracts and analysis of real world cases \* supporting web site including Lecturer's Resource Pack and Student Centre with interactive Excel and GAUSS software

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This is probably the ideal introductory textbook for advanced undergrad or MBA/MSc Finance majors for their first Financial Engineering or Risk Management courses. New students of these subjects would benefit more from reading this textbook than from reading the much more celebrated (whether deserving or not is up to debate) and yet much more expensive John Hull's classic 'Options, Futures, and other Derivatives', despite the fact that Hull's book is a favorite among many college professors (Hull's book was, incidentally, the textbook used in my MBA options and derivatives course). There are many reasons that I feel this book represents good value and provides a smooth introduction into the world of financial engineering:

1. Comprehensive: All the major financial products and derivatives are thoroughly covered. Advanced topics such as chooser options and real options are included as well.
2. Available computer/spreadsheet models: To supplement the excellent coverage in the textbook, the author has made available codes on his website for students to download and to further their self-study. The spreadsheets are professionally

done and I found them very useful, either as learning tools or as template to develop more advanced models.3. Clarity of exposition: The style is straightforward, avoiding unnecessary jargons. Yet the authors walk you through each step of the way using examples, graphs(plenty of them), fully developed equations, and tables.4. Math and theoretical Rigor: This book does not lack mathematical rigor. Technical appendices are included as well, e.g. Ito's Lemma. If needed, relevant literature is quoted for the student to further his/her study.5. Solid Value: this book can be had for less than fifty dollars. A bargain compared to many other finance books of similar caliber. Getting this book is like getting two for the price of one: both the financial engineering section and that of risk management could have been sold as two separate volumes. With this book the authors have paved the way for the new students of FE and Risk management to explore these fascinating world. You will not regret the purchase.

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