[Summary]

[Derivatives (Part - 1)]

Subject:	Business Economics
Course:	B. A. (Hons.), 5th Semester, Undergraduate
Paper No. & Title:	Paper – 511 Macroeconomics - II
Unit No. & Title:	Unit – 5 Derivatives
Lecture No. & Title:	Lecture – 1 Derivatives (Part - 1)

Summary:

Derivatives have been a very successful innovation of the capital markets. A forward or futures contract involves an obligation to buy or sell an asset at a certain time in the future for a certain price. Specification of future contracts is an important activity for a futures exchange. The various types of future contracts depend on the underlying asset i.e. a Commodity Futures.

There are three main types of traders in a market, 1) Hedgers who use derivatives to reduce or eliminate this risk; 2) Speculators use derivatives to get extra leverage and 3) Arbitrageurs who are in business to take advantage of a discrepancy between prices in two different markets and mainly hedge their risk through futures using various strategies.

Swaps are another type of derivative which is used to hedge risk, mainly interest rate and foreign currency fluctuation risk. The two most common types of swaps are interest rate swaps and currency swaps.