

Seminar Finance: Derivatives & Risk Management

Bachelor Seminar

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Summer Term 2020

Requirements

- Preparation of a seminar paper in groups of up to 3
- Scope: 15/20/25 pages (depending on group-size)
- Independently perform empirical / quantitative analysis
- Use of appropriate statistics software
- Pure literature research is not sufficient
- Presentation of seminar paper in blocked seminar
- Assessment: 60 % written work and 40 % presentation

Procedure

- 31.01.2020, submission of preferences in my office (Room 044, Building 1501)
- 04.02.2020, allocation of topics via email
- 07.02.2020, binding registration in my office
- 15.05.2020, submission (before 11 AM) in my office
- end of May 2020 (TBA): presentation
- General information and registration form:
<https://www.fmt.uni-hannover.de/de/lehre/seminare/bachelor/seminar-finance-derivatives-risk-management-273015/>
- Grading specification form: <https://www.fmt.uni-hannover.de/fileadmin/fmt/pdf/seminare/Bewertungswahl.pdf>
- Guideline for writing seminar papers:
https://www.fmt.uni-hannover.de/fileadmin/fmt/pdf/Richtlinien_zum_Erstellen_von_Seminar-_und_Abschlussarbeiten.pdf

Implied Volatility

Task:

- By (numerically) inverting the Black-Scholes formula, one can obtain an option-implied volatility of the underlying asset
- Empirically assess the Black-Scholes implied volatility of a stock market index. Do you find smile or term-structure effects? Can implied volatility forecast realized volatility?

Literature:

- Black, F., & Scholes, M. (1973). The pricing of options and corporate liabilities. *Journal of Political Economy*, 81(3), 637-657.
- Hull, J. C. (2012). *Options, Futures and Other Derivatives* (8th ed.). Prentice Hall.
- Dupire Bloomberg, B. (1994). Pricing with a Smile. *Risk*, 7(1), 18-20.

Asian Options

Task:

- Asian options belong to the class of exotic options. The option payoff depends on the average price during a certain pre-specified period instead of just the price at the exercise date. First, different permutations of Asian options shall be described
- Analytically assess the value of Asian options. Value the options using Monte-Carlo Simulations. If possible, compare your valuation with market values of existing Asian options

Literature:

- Hull, J. C. (2012). Options, Futures and Other Derivatives (8th ed.). Prentice Hall.
- Kemna, A. G. Z., & Vorst, A. C. F. (1990). A pricing method for options based on average asset values. Journal of Banking and Finance, 14(1), 113-129.

Barrier Options

Task:

- Barrier options are activated or deactivated by certain events. There are knock-out options and knock-in options. These shall be classified and explained theoretically
- Analytically assess the value of barrier options. Value the options using Monte-Carlo Simulations. If possible, compare your valuation with market values of existing barrier options.

Literature:

- Hull, J. C. (2012). Options, Futures and Other Derivatives (8th ed.). Prentice Hall.

Spread Options

Task:

- For spread options, the payoff depends on the price difference of two assets. First these shall be described theoretically.
- Analytically assess the value of spread options. Value the options using Monte-Carlo Simulations. Compare the simulated value to that of closed form approximations. If possible, compare both valuations with market values of existing spread options.

Literature:

- Hull, J. C. (2012). Options, Futures and Other Derivatives (8th ed.). Prentice Hall.
- Li, M., Deng, S. J., & Zhou, J. (2008). Closed-form approximations for spread option prices and Greeks. *Journal of Derivatives*, 15(3), 58-80.

Structured Products

Task:

- There are plenty of certificates (e.g., Rainbow, Discount, Express, Equity Linked Bonds, ...) traded on financial markets.
- Analytically assess the value of a selected certificate. Value the certificate using Monte-Carlo Simulations. If possible, compare your valuation with market values of existing structured products.

Literature:

- Hull, J. C. (2012). Options, Futures and Other Derivatives (8th ed.). Prentice Hall.

Value-at-Risk

Task:

- In the 90s, VaR was developed as a single number risk measure by bankers at J.P. Morgan
- Describe the concept and discuss different estimation approaches
- Conduct an empirical study to test the properties of the different approaches

Literature:

- Hull, J. C. (2012). Options, Futures and Other Derivatives (8th ed.). Prentice Hall.
- Christoffersen, P. F. (2012). Elements of Financial Risk Management. Academic Press.

How to write a good seminar paper

- Start early and plan ahead.
- Summarise your readings. You forget what you read within days.
- Use reliable sources (Datastream, NOT yahoo finance; papers/books, NOT wikipedia)
- You can find papers on google scholar (access to published papers in the uni network).
- Interpret your results and relate them to previous research.

How to maximize the learning effect

- Why? What you learn now, saves you valuable time when you write your thesis.
- Use R instead of Excel.
- Comment your code.
- Use LaTeX instead of Word.
- Write in English, not German.