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Book Review

“Options, Futures, and other Derivatives”

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“Options, Futures, and other Derivatives” an often suggested and recommended book by Professor John C. Hull, has over the years emerged the most preferred textbooks, especially in business management community and fraternity. Derivatives Management is taught as subject in various B-schools For business graduates, derivative instruments are introduced through a progression where the levels of intricacies and difficulty is progressed slowly to levels where one is involved in pricing, monitoring, comparing the price movements, feasibility, and even predicting the changes.

Hull, in his book, has been very successful in maintaining this progression and this very nature of his book has mustered to come out as one of the most preferred book on derivatives among the numerous books available in market.

Contents

“Such labored nothings, in so strange a style, Amaze th’ unlearned, and make the learned smile”, says Alexander Pope in “An Essay on criticism” and so goes this herculean act of reviewing this book which has always been a Rosetta’s stone amidst its readers.

Hull has taken immense care in narrowing down the gap between theory and practicality, which has always been an issue in this subject and only few, could address it. The book also took into account and negated the basic assumption, a fallacy which

was always there, of the reader possessing a sound mathematical knowledge.

The book contains both, basic as well advanced concepts and readers can derive knowledge based upon their needs. It has topics such as; Wiener process and Ito lemma, Estimating volatility and correlations, Convexity, timing and quanto adjustments etc, which are useful for practitioners while simultaneously including current topics and trends such as; HJM (Heath, Jarrow, and Morton) models, LMM (LIBOR market model) etc. These topics are explained without much effort being put in theory but rather the applicability of these models.

Theories of Merton, Cochrane et al have long been looked upon as providing theoretical foundations for advanced MBA students, and Hull in his book has made a successful effort in presenting the theories with innovation which takes away the dullness in former ones.

The lucidity with which the book flows is really commendable, as the explanations of pricing the instruments and details in the techniques to readily apply is concentrated more upon.

Developments

Hull has been proactive in developing the book by including novel concepts and also exhibiting the new developments that have been taking over in this derivatives market. He included the perspective of derivatives from the point of view from India, China and Brazil, which is welcomed by most as

this was lacking in his earlier editions. The book also now explains new concepts such as; VIX Volatility index, Valuation of volatility swaps and volatility smiles. These concepts are new and are well presented with ample examples to make the reader understand and use them.

One of the most important aspects of the book which has been widely accepted by professionals is the use of DerivaGem software with latest version included. This software equips the user with pricing Options and also helps them build applications. The software can be used by students to create and explore the properties of options.

Conclusion

A complete book for anyone who wishes to, either, explore the world of derivatives or master the derivatives instruments. Difficult topics simplified so that the practicality is achieved, which many books fail. The only downside with the book is that Indian readers will find it difficult, in some topics, to relate and decipher as these topics are not yet in their entirety in the country. The rules & regulations in Indian market add another hurdle for practitioners. Derivatives market and instruments are still in their nascent stage in India though efforts have been made in trying to include concepts and scenarios in developing countries.

