

Book Review

Derivatives and Financial Innovations

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In recent decades, financial markets have been marked by excessive volatility. As foreign exchange rates, interest rates and commodity prices continue to experience sharp and unexpected movements, it has become increasingly important for the corporates exposed to these risks be prepared to manage them effectively. Derivative securities provide them valuable set of tools for managing this risk. A good understanding of basics concepts and practical applications of new financial products is essential to build a good risk management strategy.

This book is divided into three parts. Part one of the book gives an overview of the derivatives market in India and explains in detail the basic concepts & terminologies of futures contract. In the initial part of the book, the author gives insight on the trading mechanism of futures contract, risk management using futures, and pricing of futures contract. The text is simple, easy to read and helps in dealing with futures market and their strategic use.

The second part of the book is dedicated to describe the use of options contract as a risk mitigating tool. This section of the book starts with basics of options contract, various terminologies used in options market and option price valuations. The author has very well explained the mechanism of calculating margins using SPAN (Standard Portfolio Analysis of Risk) a risk management and margining product designed by Chicago Mercantile Exchange (CME). The author has explained different technical aspects of options, he also elaborates extensively on the relationship between risk management and options. The author has tried to give a complete view of options trading to the reader.

The third part of the book focuses on the uses of various new Innovative financial products. This section deals with innovative financial products and the process of developing such structures. It explains how these new financial products came into existence. The author also throws light on the regulatory and legal framework, which currently exists in India. The best part of this section is that it is case oriented and helps to better analyze complex product and to develop innovative structures for meeting the needs of market players.

The book is written in a very user friendly and easy to read manner. The positive features of the book include the example approach to explain the concepts and also linking them with the actual business scenario. The book would be a useful guide for the managers, students of management programmes and other readers interested in derivatives market.

Reviewed by:

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