Section – 10

(b)

Describe the meaning of derivates?

Derivates ⇒

A derivates is a contract between two or more parties whose values is based on an agreed upon underlying financial assets (like a securities) or set of assets. (like an index) Common underlying instrument included Bonds, Commodities, currencies, interest rate, market index and stocks.

Page No.
Date

Generally belonging to the relam of advanie investing, derivates are secondary, securities whose value is soley based on the value of the primary securites they are liked to.

Future contract, forward contract, option, swaps and warrants are commonly used derivates.

Future contract → Is a derivates because it's values is affected by the performance of the underlying assets.

Similarly a stk option is a derivates because its value is derived from that of the underlying stk. While a derivates value is based on an assets.

There are two classes of derivates product "lock" and "option". Lock product bind the respective parties from the outset to the agree upon terms over the life of the contract.

Option product on the otherhand offer the buyer the right, but not the obligation to become a party to the contract under the initally agreed.

This risk reward option equation is often thought to be the basis for investment derivates can be used to either migates risk. Or assume risk.

For ex :⇒

A trader may attempts to profit from an anticapted drop in an index price by selling (or going short)

Deriviates used to hedge allow to associated with the asset price.