Futures and Options Markets
Applied Economics 4481/5481
Spring 2014

Instructor: Dr. Marin Bozic, Assistant Professor, Department of Applied Economics
Office: 317c Ruttan Hall
Email: mbozic@umn.edu
Outside office hours, email is the best way to reach me. However, for longer questions do try to come to office hours.
Office Hours: Tuesday, Thursday 10:30-11:30am. Other times by appointment.

Teaching Assistant: Mr. Fanda Yang, M.S. in Financial Mathematics
Office: 317d Ruttan Hall
Email: fanda007@umn.edu

Class Website: https://ay13.moodle.umn.edu/course/view.php?id=12674

Course Objectives:
By the end of this semester, you will have an in-depth understanding of four critical areas:

1) Fundamentals of commodity futures and options markets
2) The relationship between derivative and cash markets
3) How futures and options are used by agricultural producers and agribusiness firms to manage price risk
4) The role of speculation and arbitrage in futures and options markets

The emphasis will be on practical understanding of markets and building skills that can help you design and implement risk management programs using agricultural futures and options contracts. To that end, classes will consist of lectures and discussions, invited guest speakers and trading simulations.

Readings:

There are two very good textbooks for those who want to read more:


The lectures will not follow closely materials from any single book, and I will be posting materials frequently on our class website.

**Course Outline:**

I. Introduction to Futures Markets  
II. Cash-Futures Price Relationships  
III. Hedging with Futures Contracts  
IV. Speculating with Futures Contracts  
V. Options on Commodity Futures (Introduction, Hedging, Speculation)  
VI. Fundamental and Technical Price Analysis  
VII. Financial Futures and Options  
VIII. Putting it All Together: Risk Management using Derivative Markets

**Grading:**

Grading will be based on homeworks, midterms, final exam and the class project. Maximum number of points a student can earn is 1,000. The points carried by each graded element are distributed as follows:

- Homeworks 200pts  
- Class Project 150pts  
- Midterm 1 200pts  
- Midterm 2 200pts  
- Final Exam 250pts

Final exam is comprehensive, i.e. it will cover material from the entire semester. The following table provides a starting point for grades. The final grades will be curved lower if necessary, but this will be the maximum percentage required to achieve the grade.

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<tr>
<th>Total Points</th>
<th>Grade (A-F)</th>
<th>Grade (S/N)</th>
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<tbody>
<tr>
<td>930-1,000</td>
<td>A</td>
<td>S</td>
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<tr>
<td>900-929</td>
<td>A-</td>
<td>S</td>
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<tr>
<td>870-899</td>
<td>B+</td>
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<tr>
<td>830-869</td>
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1. **Homework assignments** will be due on assigned days. You are welcomed and encouraged to form study groups, but all homework assignments must ultimately be completed independently, unless specifically stated by instructor. By turning in an assignment with your name, you are confirming that you have completed the work on your own. Any violation will result in a score of zero for that project or assignment.

2. **Exams** are to be taken on assigned days that will be announced well in advance. Any change to an assigned test day must be approved in advance by the instructor. Failure to take an exam will result in a score of zero points for the exam.

3. **Extra Credit Work** is not permitted in an attempt to improve a student’s grade unless the instructor has specified that all students will have the same opportunity.

4. **Course Workload.** For undergraduate courses, one credit is defined as equivalent to an average of three hours of learning effort per week over a full semester necessary for an average student to achieve an average grade in the course. For example, a student taking a three-credit course that meets for two and a half hours per week should expect to spend an additional six and a half hours a week on coursework outside the classroom.

5. **The two major grading systems** used are the A-F and S-N. Departmental majors must take major courses on the A-F system; non-majors may use either system. ApEc 4481/5481 will be based on an A-F system with ‘plus-minus’ grades included. All students, regardless of the system used, will be expected to do all work assigned in the course, or its equivalent as determined by the instructor. Any changes you wish to make in the grading base must be done in the first two weeks of the semester.

6. **Incompletes.** The instructor will specify the conditions, if any, under which an “Incomplete” will be assigned instead of a grade. The instructor may set dates and conditions for makeup work, if it is to be allowed. “I” grades will automatically lapse to “F” at the end of the next semester of a student’s registration, unless an instructor agrees to submit a change of grade for a student during a subsequent semester to maintain the grade as an “I.”

7. **Instructor Conflicts.** Inquiries regarding any changes of grade should be directed to the instructor of the course. If you feel you have a conflict, you may wish to contact the Student Conflict Resolution Center, website: http://www.sos.umn.edu/; Phone 612-624-7272; or email sos@umn.edu for assistance.

8. **Students are responsible** for all information disseminated in class and all course requirements, including deadlines and examinations.

9. University policy **prohibits sexual harassment** as defined in the 5/17/84 policy statement, available at the Office of Equal Opportunity and Affirmative Action. Questions or concerns about sexual harassment should be directed to this office, located in 419 Morrill Hall.
10. **Students with disabilities**: The University of Minnesota is committed to providing equitable access to learning opportunities for all students. Disability Services (DS) is the campus office that collaborates with students who have disabilities to provide and/or arrange reasonable accommodations.

If you have, or think you may have, a disability (e.g., mental health, attentional, learning, chronic health, sensory, or physical), please contact DS at 612-626-1333 to arrange a confidential discussion regarding equitable access and reasonable accommodations.

If you are registered with DS and have a current letter requesting reasonable accommodations, we encourage you to contact your instructor early in the semester to review how the accommodations will be applied in the course.

11. **Mental Health Statement**: As a student you may experience a range of issues that can cause barriers to learning, such as strained relationships, increased anxiety, alcohol/drug problems, feeling down, difficulty concentrating, and/or lack of motivation. These mental health concerns or stressful events may lead to diminished academic performance or reduce your ability to participate in daily activities. University of Minnesota services are available to assist you with addressing these and other concerns you may be experiencing. You can learn more about the broad range of confidential mental health services available on campus via www.mentalhealth.umn.edu.

11. **Scholastic misconduct** is broadly defined as “any act that violates the rights of another student in academic work or that involves misrepresentation of your own work.” Scholastic dishonesty includes (but is not necessarily limited to): cheating on assignments or examinations, and plagiarizing (which means misrepresenting as your own work any part of work done by another; submitting the same paper or substantially similar papers to meet the requirements of more than one course without the approval and consent of all instructors concerned; depriving another student of necessary course materials; or interfering with another student’s work). Academic dishonesty in any portion of the academic work for a course shall be grounds for awarding a grade of F or N for the entire course.