

General Categories

Major categories of assets underlying exchange-traded derivatives:

- commodities
- common stocks and indexes
- fixed income securities
- currencies

These reflect common risks faced by many economic agents: the domestic prices of commodities, general economic welfare which is highly correlated with stock market indexes, domestic interest rates which are determined by the prices of government bonds, and the prices of foreign assets which are correlated with foreign currency exchange rates.

Commodities

Categories of commodities with exchange-traded derivatives:



Grains and Oilseeds



Livestock and Meat



Food and Fiber



Energy



Metals

Fixed Income Securities

Popular fixed income securities:

- US Treasury bills[†]
- repurchase agreements[†]
- Eurodollars[†]
- US Treasury notes/bonds
- mortgages



[†] Real world candidates for "cash"

Currencies



Yen



Deutschemerk



Pound




Dollar



Franc

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Securities Classification Matrix

		<u>RECEIPT</u>	
		Present	Future
<u>PAYMENT</u>	Present	Cash 	Lending
	Future	Borrowing	Forward (Future)

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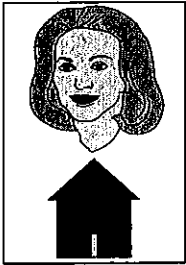
FORWARDS:

Agree on price now, trade later.

January

I'll buy your house in July for \$350,000.

You've got a deal.

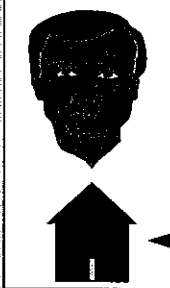




Nothing is exchanged now.

July

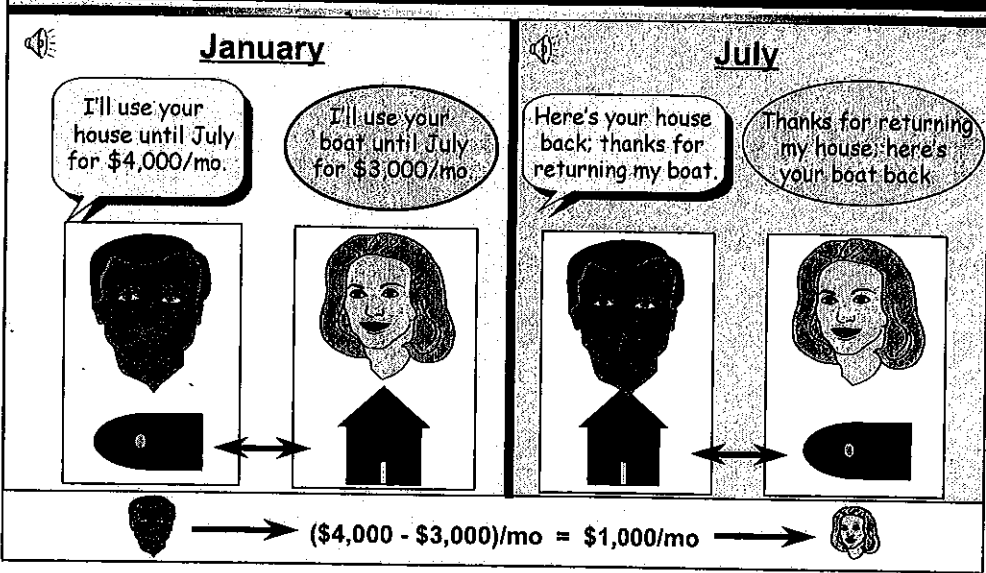
Thanks for the house.

Thanks for the \$350,000.

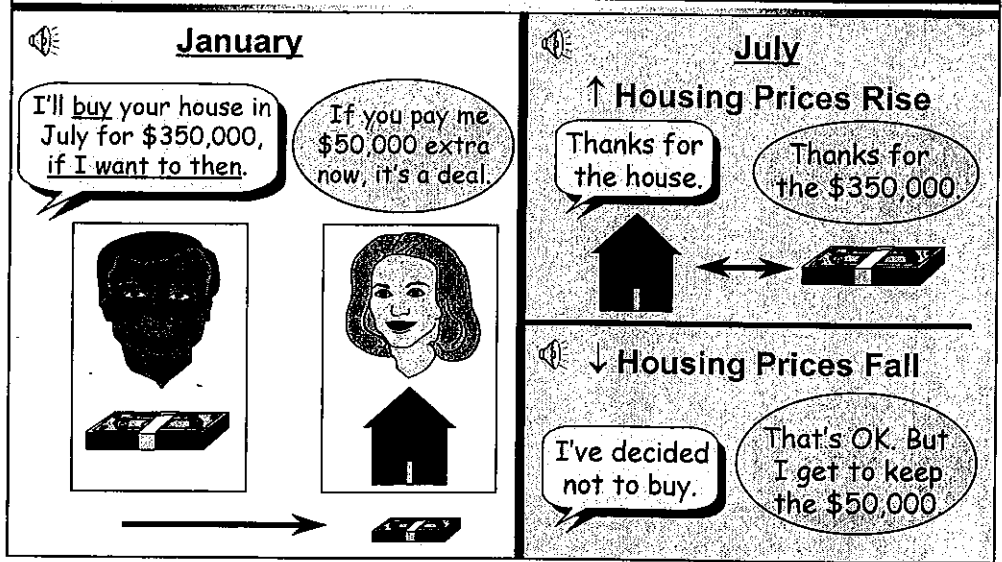



Trade occurs in the future.

SWAPS: Exchange assets now; return them later; in meantime, pay differential rent.



CALLS: Agree on price now; if option buyer wants, he buys asset later.



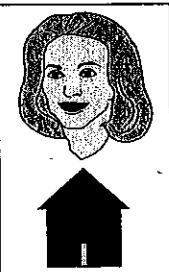

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PUTS: Agree on price now; if option buyer wants, she sells asset later.

January

I'll sell you my house in July for \$350,000 if I want to then.

If you pay me \$50,000 extra now, it's a deal.

July

↑ Housing Prices Rise



I've decided not to sell.

That's OK. But I get to keep the \$50,000.

↓ Housing Prices Fall

Thanks for the \$350,000.

Thanks for the house.

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Net Results: "Zero-Sum Game"

↑ Housing Prices Rise to \$410,000

I'm glad I bought the call because now I can buy a \$410,000 house for only \$350,000.

Too bad I sold that call; I had to sell my house cheaply.

\$410,000
- 350,000
- 50,000
\$ 10,000

↓ Housing Prices Fall

Too bad I bought that call; it didn't pay to exercise it.

I'm glad I sold the call; I got paid for it and still kept my house.

\$ - 50,000
\$ 50,000