



**QUINLAN**  
SCHOOL of BUSINESS

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Finc 346 - Section 101, Intro to Options, Spring 2014  
Tu & Th 11:30 am - 12:45 pm, Corboy Law Center 422

Instructor: Professor L. Hong  
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E-mail address: lhong@luc.edu  
Office Hours: Tu & Th 12:50 pm - 2:45 pm or by appointment

#### Catalog Description:

This class offers a comprehensive introduction to options, including a detailed examination of option markets, option properties, trading strategies using options, binomial tree and Black-Scholes valuation models, and hedging strategies using options.

#### Overview:

This is an introductory course on options. We will discuss how options are valued by studying the binomial tree model and the Black-Scholes-Merton model. Our primary focus will be on stock options, but we will also consider stock index options, currency options, and futures options. We will discuss, with lots of examples, how options are used as hedging, speculating, and arbitraging tools, with emphasis on hedging. The course will also include an investment game where students will implement in real-life situations trading strategies learned in class. This class will benefit anyone looking to work in the financial industry in general, but it will be especially useful for someone who wants to specialize in risk management.

#### Course Objectives and Learning Outcome:

1. Students will be able to demonstrate an understanding of option markets and option pricing models
2. Students will be able to demonstrate an understanding of how options can be used to hedge risks.

**Required Text:**

Fundamentals of Futures and Options Markets, 8th edition, by John Hull  
Available at the University Bookstore

**Course Requirements:**

The course requirements are two exams and one project. Your overall course grade will be calculated as

Project	20%
Exam 1	35%
Exam 2	45%

1. The finance pre-requisite is Finc 335 which is an introductory course in investment. You are assumed to have a working knowledge of principles of economics. As for mathematics skills, you are assumed to have a basic understanding of algebra, graphs and functions, and probability and statistics.
2. You are expected to attend lectures and participate in class discussions.
3. Homework problems will be assigned from every chapter. I will not collect and grade your assignments, but will provide answer keys the week after the problems are assigned. Working on problems is an essential part of studying options (finance in general). I strongly recommend that students work on homework problems before getting answer keys. Homework problems will be essential preparation for the exams.
4. There will be two exams. You are required to take the exams at the scheduled times. Under special circumstances, a makeup exam can be considered, but such an arrangement has to be made before the scheduled exam. All exams are closed book.
5. The required project for the course is based on your participation in the online investment simulation game called Stock-Trak. Additional rules and requirements you need to follow and fulfill with regard to this game are specified in a separate handout. The requirement for the project write-up is also specified in that handout.
6. You are required to work on the project in groups of three to five people. Only one write-up needs to be submitted for each group. Every member of

the group will receive the same grade on the project. On the cover page of your project, list the names of all people in your group. Your project write-up should be typed as opposed to hand-written. Clarity and conciseness will be rewarded in the grading.

7. Don't free-ride on other members of your group! Being able to work within a group productively is part of the goal of this project. In the first meeting of the group, discuss how the group should be organized and how the work is going to be accomplished so that all the members of the group have a clear view of what is expected. If and when a conflict arises, group members are expected to resolve it amongst themselves.

#### Honor Code

All students in this course are bound by the School of Business Administration Honor Code. Consult [http://www.luc.edu/gsb/pdf/honor\\_code.pdf](http://www.luc.edu/gsb/pdf/honor_code.pdf) for details.

#### Grading Scale:

90 and above	80 - 89.9	70 - 79.9	60 - 69.9	59.9 and under
A- to A	B- to B+	C- to C+	D to D+	F

## Tentative Schedule

ate	opi	Chapter
1/14	Introduction	1
1/16	Mechanics of Option Markets	9
1/21	Mechanics of Option Markets	9
1/23	Properties of Stock Options	10
1/28	Properties of Stock Options	10
1/30	Properties of Stock Options	10
2/4	Trading Strategies Involving Options	11
2/6	Trading Strategies Involving Options	11
2/11	Valuing Options: Binomial Tree Models	12
2/13	Valuing Options: Binomial Tree Models	12
2/18	Valuing Options: Binomial Tree Models	12
2/20	Valuing Options: Binomial Tree Models	12
2/25	Review	
2/27	Exam 1	
3/4	Spring Break, No Class	
3/6	Spring Break, No Class	
3/11	Valuing Options: The Black-Scholes-Merton Model	13
3/13	Valuing Options: The Black-Scholes-Merton Model	13
3/18	Valuing Options: The Black-Scholes-Merton Model	13
3/20	Hedging Option Positions	17
3/25	Hedging Option Positions	17
3/27	Option Greeks	17
4/1	Option Greeks	17
4/3	Options on Stock Indices and Currencies	15
4/8	Options on Stock Indices and Currencies	15
4/10	Options on Stock Indices and Currencies	15
4/15	Options on Stock Indices and Currencies	15
4/17	Options on Futures	16
4/22	Options on Futures	16
4/24	Review	Proj. due
4/29	Final Exam 9:00 am - 11:00 am	