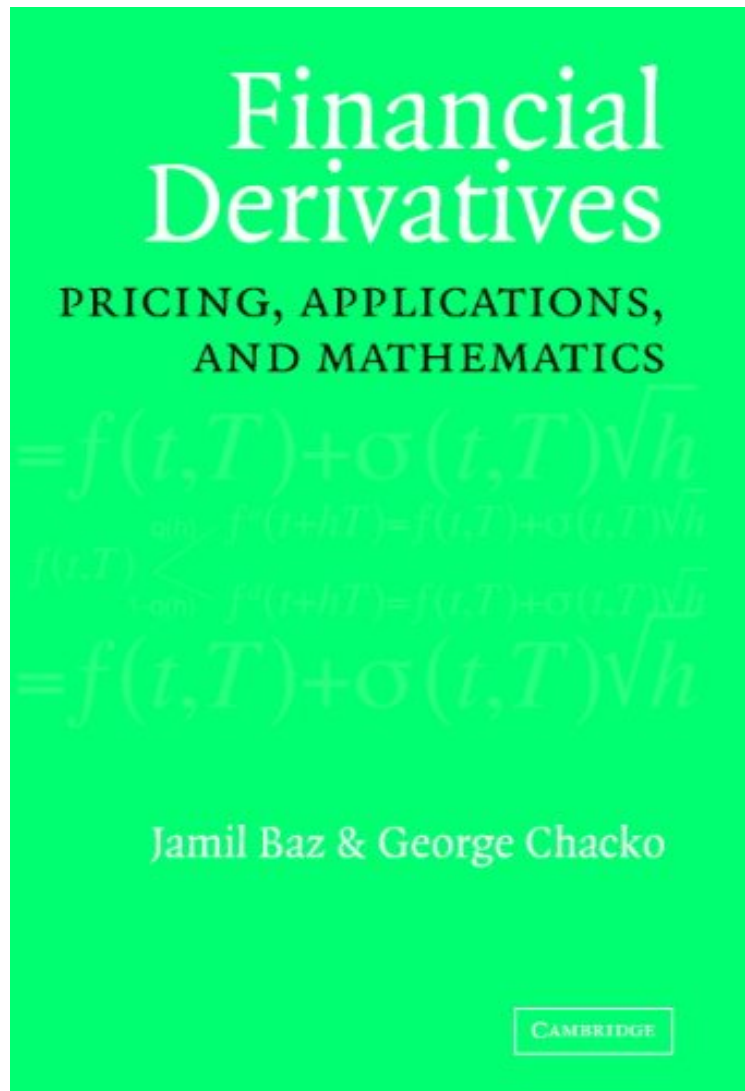


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Financial Derivatives: Pricing, Applications, and Mathematics

Jamil Baz, George Chacko

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3 of 5 people found the following review helpful. Financial Derivatives. By Palle E T Jorgensen Financial derivatives are the products traded by the financial industry, banks and trading companies; a contract whose payoff depends on the behavior of a benchmark; financial instruments whose value is derived from a number of underlying variables. Examples: futures, options, and swaps ; or other tradable assets, e.g., stocks or commodities; or such non-tradable items such as the temperature (weather derivatives), the unemployment rate, or any kind of (economic) index. Since the industry has undergone a recent explosive growth, so have the number of variety of books covering the subject. The

book by Baz Chacko is useful for readers wanting a mathematical introduction. Covered are mathematical tools, financial valuation, financial models, asset pricing, Black-Scholes. On the math side: Ito's lemma, and a systematic presentation of stochastic differential equations; and dynamical programming. There are other similar books out there, roughly the same level, and roughly the same emphasis; for example by Willmott-Howison-Dewynne, and by Capinski-Zastawniak. I believe they all serve a very useful purpose. Review by Palle Jorgensen, July 2011. 25 of 27 people found the following review helpful. Glad I found it. By N N Taleb. One of the authors, Baz, gave me a copy of this book when it came out and it went to sleep in my library as I was not in a finance mood. I forgot about it until this week as I was stuck on a problem related to risk-neutral pricing and the Girsanov theorem concerning changes in probability measure. I looked at every passage on the subject until I hit on it. Then I realized that I should have read it before: it is a condensed, but extremely deep, and complete exposition of the subject of theoretical finance. No financial book has the clarity of this text. Other quant books do not have such notions as "pricing kernel" and economic theoretical matters. I would recommend it as a necessary piece of the "quant" toolkit. Every quant should have it as a background tool as the usual quant literature is standalone and devoid of these concepts. 23 of 27 people found the following review helpful. A complete package for practice and theory. By A Customer. This book draws on the PhD course that Prof. Chacko teaches at Harvard Business School and the substantial real-world experience with derivatives of both authors to offer a solid package that is useful for both theory and practice. There are other books with clear and rigorous mathematics (e.g. Willmott), variety of methodologies for pricing (e.g. Neftci) and guides to practical hedging (e.g. Taleb), but this one presents all three components and is therefore a must-have for any serious derivatives shop. Highly recommended.

This book offers a complete, succinct account of the principles of financial derivatives pricing. The first chapter provides readers with an intuitive exposition of basic random calculus. Concepts such as volatility and time, random walks, geometric Brownian motion, and Ito's lemma are discussed heuristically. The second chapter develops generic pricing techniques for assets and derivatives, determining the notion of a stochastic discount factor or pricing kernel, and then uses this concept to price conventional and exotic derivatives. The third chapter applies the pricing concepts to the special case of interest rate markets, namely, bonds and swaps, and discusses factor models and term structure consistent models. The fourth chapter deals with a variety of mathematical topics that underlie derivatives pricing and portfolio allocation decisions such as mean-reverting processes and jump processes and discusses related tools of stochastic calculus such as Kolmogorov equations, martingale techniques, stochastic control, and partial differential equations.

"...excellent for industry people and for the new masters programs in quantitative financial modeling and mathematical finance...Excellent, too, is the exposition and the writing style." Darrell Duffie, Stanford Business School
"...excellent...it contains the most important ingredients for a successful textbook, viz, clarity and accessibility...it will also be useful to practitioners who need to brush up on underlying concepts." Dr. Sadek Wahba, Morgan Stanley
Payne Webber
"The book is fundamentally strong because it is both well-informed technically and also focused on the actual matters that matter in the markets." Martin Baxter, Nomura International, London
About the Author
Jamil Baz is the chief investment strategist of GLG, a London-based hedge fund. Prior to holding this position, he was a portfolio manager with PIMCO in London, a managing director in the Proprietary Trading Group of Goldman Sachs, chief investment strategist of Deutsche Bank, and executive director of Lehman Brothers fixed income research division. Dr Baz teaches financial economics at Oxford University. He has degrees from the London School of Economics (M.Sc.), MIT (S.M.), and Harvard University (A.M., Ph.D.).
Professor George Chacko has split his time between the academic and commercial worlds during his career. His past commercial experience has included work at Accenture and Prudential Investments. Most recently, he was a managing director heading fixed income sales and trading at State Street Bank, a managing director in pension asset management at IFL, and the chief investment officer of Auda Alternative Investments. He has co-founded and sold three financial services businesses over his career. He is currently the managing partner of Confluentis Investments. His past academic experience has been at Harvard Business School, where he served as a professor in the finance department for ten years. He also served as a visiting professor at the Indian School of Business. He is currently a professor in the finance department at Santa Clara University. His research interests have been in the areas of fixed income and derivatives research, portfolio choice and construction, and the microstructure of financial markets. He has a BS from MIT in Electrical Engineering, an MBA from the University of Chicago, and an MA and PhD from Harvard University in Business Economics.