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DERIVATIVES: A device for Risk Management

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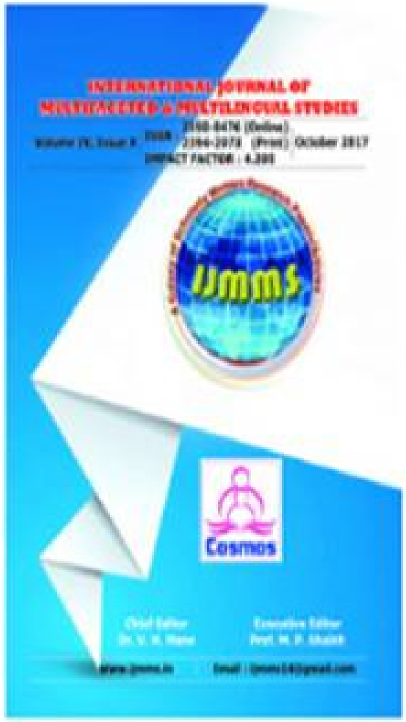

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Abstract

Deregulation of Markets of national economies, growth in the international trade, and ever growing technological changes has revolutionized the financial markets during the past four decade's world over. The resultant of this revolution is increased market volatility, which has led to a corresponding increase in demand for risk management products. This demand is reflected in the growth of financial derivatives from the standardized futures and options products of the 1970s to the wide spectrum of over-the-counter (OTC) products offered and sold in the 1990s. One of the leading investors in the world, Warren Buffet claimed that economic derivatives are so unsafe that they can even be origin for financial disasters by arguing that numerous persons turn to the economic derivatives market to direct them on future funding rather than of observing at the genuine market. Financial derivatives are instrumental in the hedging method because through them, groups can exchange risk. The Business is learning to cope with a rapidly changing environment with hedging strategies which provide buffers to the bottom line. The present study deals with the conceptual issues and critics of Derivatives.Key Words: Derivatives, Financial Risk and Risk Management.

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