

## **A STUDY ON FINANCIAL DERIVATIVES (FUTURES & OPTIONS)**

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### **ABSTRACT**

The emergence of the market for derivatives products, most notably forwards, futures and options, can be tracked back to the willingness of risk-averse economic agents to guard themselves against uncertainties arising out of fluctuations in asset prices. Derivatives are risk management instruments, which derive their value from an underlying asset. The following are three broad categories of participants in the derivatives market Hedgers, Speculators and Arbitragers. Prices in an organized derivatives market reflect the perception of market participants about the future and lead the price of underlying to the perceived future level. In recent times the Derivative markets have gained importance in terms of their vital role in the economy. The increasing investments in stocks (domestic as well as overseas) have attracted my interest in this area. Numerous studies on the effects of futures and options listing on the underlying cash market volatility have been done in the developed markets. The derivative market is newly started in India and it is not known by every investor, so SEBI has to take steps to create awareness among the investors about the derivative segment. In cash market the profit/loss of the investor depends on the market price of the underlying asset. The investor may incur huge profit or he may incur huge loss. But in derivatives segment the investor enjoys huge profits with limited downside. Derivatives are mostly used for hedging purpose. In order to increase the derivatives market in India, SEBI should revise some of their regulations like contract size, participation of FII in the derivatives market. In a nutshell the study throws a light on the derivatives market.

**KEYWORDS:** Financial Derivatives