## **Contents**

Introduction	. 3
Chapter 1. Financial risks faced by companies	. 7
1.1. Types of risk	
1.2. The interest rate risk and the special role of interest rates in the economy	. 7
1.3. Risk measures	
1.4. Traditional risk and return ratios	15
1.5. Types of alternative risk and return measures	
1.6. More details on alternative risk and return measures	
Chapter 2. Standard derivatives in risk management	23
2.1. Forwards used in interest rate and liquidity risk mitigation	23
2.2. Forward rate agreement (FRA) as a special case of the forward contract	24
2.3. Hedging interest rate risk with different kinds of caps	
2.4. Hedging with the use of floors	27
2.5. The usage of an interest rate zero-cost collar	
2.6. Swaps applications	29
2.7. Managing risk with financial futures	
2.8. Options as a modern tool of financial risk management in a company	
2.9. Options risk factors study	36
2.10. Factors influencing option prices and their fluctuations in examples	37
2.11. Option theoretical prices	47
2.12. Option investment strategies and possibilities of additional cash flow	
generating in a company with them. Case – studies	50
Chapter 3. The idea of exotic options and their valuation	59
3.1. The theory of barrier options and their valuation	59
3.2. Factors influencing binary options prices and their fluctuations. Case studies	
3.3. Compound options and the possibilities of their pricing	
3.4. Zero – cost collars	79
3.5. Typology, construction and valuation of Asian options	79
3.6. Empirical studies of market parameters influence on Asian options prices	

4 CONTENTS

Chapte	er 4. Polish OTC market of options and examples of their applications	
in P	olish enterprises	91
4.1. C	Options traded on the Polish financial market	91
4.2. C	Company hedging with barrier options. Case - study from the Polish financial	
n	narket	93