DON CHANCE

As this book goes into its eighth edition, I continue to be amazed at how the derivatives and risk management world have evolved. When I originally drafted a plan for the first edition, I was told by some publishers that there was no market for a textbook on options and futures, as it was pitched at that time, and that the concept had no future. Fortunately, a predecessor of Cengage had the foresight to see that the idea was merely ahead of its time. While much has changed in the financial world over these years, these tools have remained an important force in our economy. Yes, I know that some say derivatives, particularly mortgage securitization and credit default swaps, contributed to our current economic problems. I would only counter that by noting that fire has also contributed to death and destruction but we use it safely and productively every day. We do so because we are informed about the costs, risks, and benefits. And that is the purpose of this book.

Students who take a course based on this book will consist of three types: those who will never use derivatives, those who will someday be dealers and therefore will provide derivative products, and those who will use derivatives to solve problems and therefore will be the end users who buy derivatives. For those who will never use derivatives, this book will be valuable in the same sense that it is important to know such things as the seven warning signs of cancer regardless of whether you ever have cancer. Being informed makes us better human beings and in particular, business decision makers. Students who become dealers will obviously need to know a lot more than is in this book. It is our hope that the book will be a stepping stone toward an exciting career. For those who become end users, the book will give the foundations that will make them smart shoppers in the market for derivatives. It will teach them the importance of understanding the proper use of derivatives and how they are valued.

From a personal perspective, I am celebrating close to a quarter-century as an expert in derivatives. My decision to go into this area is one I have never regretted. I know it was probably just luck that I chose a field that would really take off. It was a bet I never hedged and in that sense, I took a risk without properly assessing the possible consequences. We should never make decisions that way, but sometimes we get away with it. I feel lucky in a way most people cannot imagine.

I am also lucky to have had strong support from my wife Jan, who knows this is what I do but doesn’t really want to know any more about it than that. I don’t blame her. We derivatives people sometimes seem off in our own little world of geekiness. Fortunately, there are people who still love us.

ROBERT BROOKS

As we are now well into the twenty-first century and have experienced both periods of financial calm as well as financial turmoil, the need for quality content on financial derivatives and risk management has never been greater. It is a privilege for me to collaborate with Don on such a successful book. My goal continues to be aiding students in understanding how to make financial derivatives theory work in practice. The financial
derivatives and risk management subject area is a rapidly changing field that provides those who learn to navigate its complexities the opportunity for a rewarding career. By straddling the fence between the academic community and the practitioner community, I seek to continually enhance our book’s quest to equip the next generation of financial risk managers.

I would like to encourage college students and others reading this book to consider a rewarding career in this field of study. From serving in a corporation, a financial services firm, or an investment management company, the ability to provide wise financial counsel leads to a fulfilling career. Knowing that you have contributed to protecting your firm from inappropriate financial risk or investing in an unsuitable strategy for your clients is both financially rewarding as well as personally gratifying.

I am deeply grateful to my wife Ann and my children Joshua, Stephen, Paul, Rebekah, Phillips, and Rachael. At the time of this writing, four children are teenagers providing constant opportunities to refine teaching financial principles as well as apply risk management in practice. My family is a constant source of encouragement and they are all very supportive of my activities related to this book.

DON AND BOB

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We always used to feel that the errors in a book should, through attrition over the years, disappear. We have learned otherwise. Although no one wants errors to remain, if you ever find a book in its eighth edition without any errors, you can be assured that the author is simply correcting old material and not keeping the book up-to-date. With a field as dynamic as derivatives, extensive changes are inevitable. Despite Herculean efforts to cleanse this work, there are surely some errors remaining. We feel fairly confident, however, that they are not errors of fact, but merely accidental oversights and perhaps typos that just did not get caught as we read and re-read the material. Unlike most authors, who we think would rather hide known errors, we maintain a list of such
errors on this book’s Web site. (That’s http://www.cengage.com/finance/chance for the general site that links you to the error page.) If you see something that does not make sense, check the Web address mentioned above and see if it’s there. If not, then send us an email by using the Contact Us form on the book’s Web site.

Or just send us an email anyway, whether or not you are students or faculty. Tell us what you like or don’t like about the book. We would love to hear from you.

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