



**INTERNATIONAL JOURNAL OF CREATIVE
RESEARCH THOUGHTS (IJCRT)**

An International Open Access, Peer-reviewed, Refereed Journal

**A STUDY ON STUDENTS’ PERCEPTION
TOWARDS DERIVATIVE TRADING**

Submitted by

**Tejas Rajmohan Pathak
Garima Kalra
Akanksha Gurung
Bangari Shashank**

Under the Guidance of

Dr. Abhishek Sharma
Assistant Professor

**(SCHOOL OF MITTAL SCHOOL OF BUSINESS ADMINISTRATION)
LOVELY PROFESSIONAL UNIVERSITY
Phagwara, Punjab (India) – 144402**

CHAPTER 1: INTRODUCTION TO DERIVATIVE TRADING



1.1. INTRODUCTION

The study of students' perception regarding derivative is a crucial area for economics and finance study. The use of futures and options contracts in derivative trading is a sophisticated financial tool that helps investors protect themselves from the risk of underlying commodity price fluctuations. Trading in derivatives can be a way to both increase market risk and protect against losses. Understanding how students view derivative trading is crucial because it can guide choices about how to best teach students about using derivatives. This research explores how students view derivative trading and their attitudes toward it, as well as the factors that affect their choices. The research assesses the students' general comprehension of the risks involved in derivative trading as well as their degree of knowledge on the subject. The research then discusses how these results may affect how derivatives trading is taught in academic institutions.

On the international markets, derivative trading is one of the most frequently used financial tools. A two-party agreement that gets its worth from an underlying asset or index is known as a derivative. Derivative trading is becoming more and more well-liked among investors as a result of its use of conjecture, leverage, and risk management. Examining students' perceptions of derivative trading is the goal of this research. The purpose of the research is to determine the knowledge that students have regarding derivatives, their reasons for investing in derivatives, and their worries regarding the risks involved in derivative trading. The pros and cons of trading derivatives from the viewpoint of a student will also be explored in the research. The findings of this study will shed important light on how students feel about derivatives and can be used to create practices and policies that will help mitigate the risks involved in trading derivatives.

Derivative trading is an investment technique that entails purchasing and reselling derivatives. Financial instruments known as derivatives are contracts that have a value that is drawn from an underlying asset, such as commodities, stocks, bonds, currencies, or market indices. Contracts for difference, futures, options, and swaps are examples of common derivatives. Investments in derivatives are leveraged, allowing investors to access a bigger asset for a small fraction of the price. Hedging, or using derivative trading to guard against losses in other assets, is another use for this strategy.

Trading in derivatives involves purchasing and selling financial instruments whose value is derived from an underlying asset or index. Financial contracts called derivatives are made up of two or more parties and have an underlying asset as the basis for their worth. Among the fundamental assets are securities such as stocks, bonds, commodities, currencies, interest rates, and market indices. Futures, forwards, options, and swaps are the most frequently traded derivatives on the financial exchanges.

1.2. DERIVATIVES

Definition

According to the Securities Contract Regulation Act, (1956) the term "derivative" includes: (i) a security derived from a debt instrument, share, loan, whether secured or unsecured, risk instrument or contract for differences or any other form of security; (ii) a contract which derives its value from the prices, or index of prices, of underlying securities.

A "derivative" is a contract whose price is determined by or relies on an underlying asset. The underlying asset could be a tangible product, an interest-bearing security, or a financial asset like cash, stocks, or market indices. Today, a wide range of commodities, including electricity, weather, temperature, and even volatility, are traded using derivative contracts.

It is possible to trade derivatives "over the counter" (OTC), on a regulated market like the NSE, directly between the parties, or both. By passing the price risk (inherent in changes in asset values) from one party to another, derivatives' main purpose is to make it easier for those who are willing to take risk to do so. In this manner, derivatives help to mitigate (reduce) the risk brought on by the ambiguity of future pricing.

For example, a rice farmer might want to sell his harvest on November 1, 2022, for a predetermined set price on January 1, 2023, to eliminate the chance of price changes by that date. A swaps contract is exemplified by this kind of transaction. The "underlying" for this derivative, which sets the price, is the market price of rice.

In a strict sense, derivatives are based on all the important instruments of the financial market that are publicly traded, including stocks, bonds, foreign exchange contracts, and contracts based on commodities. Thus, when we use the term "derivatives," we usually only refer to financial derivatives, such as forwards, futures, options, swaps, etc. Among these instruments' distinctive qualities are the following:

- ❖ By using just one of the instruments or combining two or more of them, they can be made to suit the various requirements of the users.
- ❖ They may be produced and sold in accordance with forecasts of potential changes in the value of the underlying commodities.
- ❖ These are all off-balance sheet devices.

1.3. EVOLUTION OF DERIVATIVES IN INDIA

Derivatives became tradable financial assets on exchanges in India in June 2000. India's primary derivatives market, the National Stock market (NSE), is where a variety of derivatives contracts are traded. The first contract to be launched on the NSE was the Nifty 50 index futures contract. One and a half years after the launch of index futures, index options, stock options, and stock futures were also created in the derivatives market for trading. The NSE's section for stock derivatives is known as the Futures & Options Segment, or F&O Segment.

India's exchange-traded equity derivatives markets were made feasible by several modifications to the financial system. In 1993, the NSE was established as a nationwide electronic exchange, and it started running in 1994. It improved the efficiency and transparency of the stock markets by offering a fully automated screen-based trading system with real-time price dissemination. In its research on exchange-traded derivatives, the Securities and Exchange Board of India (SEBI) recommended the gradual introduction of derivatives instruments with bi-level regulation. (i.e., self-regulation by exchanges, with SEBI providing the overall regulatory and supervisory role). Another

report from the J.R. Varma Committee, published in 1998, provided operational details for these instruments, including margining and risk control mechanisms. As a result, derivatives could now be incorporated into the system for regulating the trading of securities. Equity-based derivatives are recognized as legitimate and lawful by the Act, but only if they are traded on exchanges.

The first step toward the creation of derivatives trading in India was the Securities Laws (Amendment) Ordinance, 1995, which lifted the restriction on options in securities. However, the market for derivatives did not take off because there was no regulatory framework to regulate the trading of them. To establish an appropriate regulatory framework for derivatives trading in India, SEBI created a 24-member committee on November 18, 1996, with Dr. L. C. Gupta serving as its chairman. On March 17, 1998, the group turned in its report, outlining the requirements for starting derivatives trading in India. In order for trading in securities to be regulated by the same regulatory framework as trading in securities, the committee suggested that derivatives be recognized as securities. In June 1998, SEBI established a group under the direction of Prof. J. R. Varma to provide advice on how to lower risk in the Indian derivatives market. The report, which was filed in October 1998, outlined the practical components of the margining system, the process for calculating starting margins, broker net worth, deposit requirements, and real-time monitoring requirements.

The SCRA was updated in December 1999 to include derivatives in the definition of "securities," and a regulatory structure was established to monitor derivatives trading. The law further provided that derivatives may only be traded on a recognized stock exchange in order to be regarded as legitimate and legal, disallowing over-the-counter derivatives. In March 2000, the government also revoked a notice that prohibited dealing in securities ahead of time and had been in effect for three decades. Derivatives trading in India started in June 2000 following SEBI's ultimate approval in May 2000. SEBI approved the trading and settlement of authorized derivatives deals for the derivatives divisions of the NSE and BSE stock exchanges, as well as for their clearing house and corporation. trading of futures instruments for indexes based In accordance with the Securities Contracts (Regulation) Act of 1956, "derivatives" include:

1. A security that derives its worth from a contract for differences, share, loan (secured or unsecured), risk instrument, or any other kind of security.
2. A contract whose worth is determined by a price index for the underlying securities.

The equities derivatives market is currently the busiest derivatives market in India. stock futures trade on average more than three and a half times as much as cash stock markets.

Key moments in the growth of the Indian derivative industry

- 1.L.C. Gupta Committee was established on November 18, 1996, to create a framework for the introduction of derivatives.
- 2.The L.C. Gupta Committee publishes its findings on the policy framework on May 11, 1998. SEBI permits exchanges to trade index futures as of May 25, 2000.
- 3.Trading in Nifty futures begins on the NSE on June 12th, 2000. On June 4, 2001, the NSE begins trading Nifty options.
4. On July 2, 2001, the NSE begins to trade stock options.
- 5.November 9, 2001: The NSE launches trading in stock futures.
- 6.Trading in currency derivatives on the NSE begins on August 29, 2008.
- 7.Interest rate futures trading begins on the NSE on August 31, 2009.
- 8.Launch of Currency Futures on Additional Currency Pairs in February 2010
9. Introduction of European-style Stock Options on October 28, 2010
10. Currency Options are introduced on October 29, 2010
11. May 2012: FTSE 100 futures and options contracts (The Financial Times Stock Exchange 100 Index-UK)
12. Agreement for the Launch of S&P CNX Nifty Futures in Japan in January 2013
13. Beginning in March 2014, OSE (Osaka Securities Exchange Co., Ltd., Japan's second-largest exchange) will begin trading CNX Nifty Futures.
14. NSE Introduces "NSE Bond Futures II" in January 2014.

1.4. KINDS OF FINANCIAL DERIVATIVES



The following are significant financial derivatives:

- 1.Forwards
- 2.Futures

- 3.Options
- 4.Swaps

FORWARDS:

Forwards are the earliest derivatives. An agreement between two parties to trade a specific amount of an asset for cash at a preset price at a later date is known as a forward contract. The asset that was offered could have been cash, a good, a tool, etc.

Example: On June 1, cotton traders X and Y agree to exchange 50 bundles of cotton for Rs. 1,000 each on December 1. In this particular forward contract, in return for Y providing 50 cotton bales, X is required to give Y Rs. 50,000 on December 1.

If a user (holder) of a forward contract agrees to buy the specified commodity at the agreed-upon price at a specified future date, they are said to be in the "Long Position" and are in the forward contract. By pledging to sell at a set price in the future, the user (holder) is said to be in a "Short Position," on the other hand. "Long Position" and "Short Position" are denoted in a forward contract as "Buy" and "Sell," respectively.

Specifications Of Forward Contracts:

A forward contract assures the delivery of an object in the future. This contract is frequently referred to as the "Forward Rate Contract." (FRC).

- 1.Over the Counter (OTC) Trading: These contracts are not at all standardized because they are completely privately negotiated. These are sold "Over the Counter," not on exchanges. There is a lot of flexibility because the contract can be changed to suit the requirements of the parties to the arrangement. This kind of agreement is also called a "customized contract" because the parties join it in accordance with their customs.
- 2.No down payment: There must be a guarantee that a particular asset will be given or acquired at a future date and at a predetermined cost. The Contracting Parties shall not be obliged to make any down payment at the time of the Agreement.
- 3.Settlement at Maturity: The crucial aspect of a forward contract is that nothing trades hands when it is signed—not even money or commodities. It always occurs on the maturity date exclusively, as specified in the contract.
- 4.Linearity: Another distinctive feature of a forward rate contract is uniformity. It indicates symmetrical gains or losses resulting from changes in the price of the fundamental asset. When the future spot price of rice is greater than the agreed-upon price, the forward buyer wins. By deducting the contract price from the market price, the gain is calculated. If the futures market price falls below the contract price, he loses money. the potential profit if prices changed by the same amount in either way. It shows that a gain for a forward seller is a loss for a forward customer, and vice versa.
- 5.Since a forward rate contract is entirely private, it has no secondary market and cannot be exchanged on a stock exchange that is subject to regulation. It has no secondary market as a consequence.
- 6.Need for a Third Party: A third party is necessary in order for the parties to engage into a forward rate contract. This intermediary may be any financial organization, like a bank, or another third party.
- 7.Delivery: On the date the contract matures, delivery of the assets that is the subject of the contract is necessary.

Forward markets' limitations

Several challenges face forward markets globally:

1. Lack of trading centralized,
2. Instability and
3. Counterparty danger

Futures

Futures contracts are quite similar to forward contracts in all ways, the main difference between futures contracts and forward contracts is that the latter are completely regulated. Consequently, it is true to state that a futures contract is nothing more than a standard forward contract. It is always legally enforceable and traded on a regulated market.

A special type of futures contract that is purchased and sold in accordance with established exchange rules is what Clark refers to as futures trading. The term "future trading" refers to both speculative transactions, in which futures are purchased and sold with the intention of profiting from price changes, and hedging or protective transactions, in which futures are purchased and sold with the intention of preventing unanticipated losses brought on by price changes.

An agreement between two parties to exchange any asset, currency, or commodity for cash at a preset future date and at a predetermined price is known as a futures contract. The parties to the contract must have mutual confidence in one another. Use is limited to organized futures marketplaces and in accordance with recognized standards.

A trader who promises to purchase is said to be in a "Long Position" in futures trading, whereas a trader who promises to sell is said to be in a "Short Position."

Specifications Of Futures:

1. Futures are legally enforceable and extremely standardized. They are only traded on regulated Futures exchanges as a consequence. It can be difficult to adjust the contract to the parties' requirements. Futures come in a variety of forms, such as 1 month, 2 months, and 3 month choices. However, there is essentially no chance to change the deal once it has been signed.
2. Down Payment: At the time of the parties' agreement to the contract, there was no necessity for a down payment. However, they deposit a portion of the contract price as their original margin deposit with the exchange. This guarantees adherence to the contract's conditions. (It may range from 20% to 50% of the total deal sum)
3. Settlements: While it is possible to hold futures contracts until they mature, this is not always the case in practice. Futures instruments are "marked to market," and the exchange tracks daily profits and losses. In other words, once a futures contract is entered into, daily earnings or losses to both parties are decided. The disparity between the spot price and the futures price on that specific day denotes either profit or loss depending on the current spot pricing. The spot price is the current market price that is in force.

For instance, on August 10th, Mr. X and Mr. Y signed a futures contract for the purchase of one Lot of Nifty (Size 50) at 7000. The futures prices increase by Rs. 100 at the closing of trading on October 10. (i.e., 7100). The cash profit for X will now be Rs. 5000 (size 50 * Rs. 100 profit) for 1 lot. And if it closes at 7050 on November 11th, a loss of 2500 (size 50 * Rs 50 loss) will be charged to his account that day, deducting Rs. 2500.

Usually, these gains or losses are accumulated in the parties' margin accounts. However, the exchange authorities will intervene if there are ongoing losses and if the original margin falls below a threshold known as "maintenance margin." The contract expires automatically in this case. The profit or loss recorded that day represents the extent of the default risk brought on by such a lapse. The exchange bears the default risk since it assures that both counterparties will fulfil their obligations under the contract.

4. Price Risk Hedging: A futures contract's primary purpose is to hedge against price fluctuations. Futures contract buyers want to protect themselves from future increases in the market price, whereas contract sellers want to protect themselves from future decreases in the spot price. Parties engage into futures agreements based on their forecasts for the spot market price of the relevant assets in the future.
5. Linearity: As was previously stated, a futures contract is nothing more than a regulated forward contract. Thus, it also possesses the property of parallelism. The parties to the contract experience symmetrical gains or losses when the price of the underlying commodity fluctuates either way.
6. Secondary Market: Since futures are sold on regulated exchanges, they too have a secondary market. The derivatives markets for the NSE and BSE are where futures are exchanged.
7. Non-delivery of the Asset: When a futures contract is involved, the contested commodity does not have to be delivered on the day the contract matures. Parties frequently just exchange the differential between the future and spot prices on the date of maturity.

Options

In a volatile market, there is an especially high risk of significant changes in asset prices. The option is yet another technique for controlling such danger.

A derivative contract known as an option is one in which a buyer and a seller each grant the other (let's call them the First Party and Second Party, respectively) the right but not the obligation to purchase the underlying asset from (or sell it to) the First Party at a predetermined price on or before a particular date. The person who offers the option is compensated by the other person for doing so. The "premium" or expense of the option is the sum that was paid out. The party giving the right is the "option seller" or "option writer," who grants the "option buyer" (also known as the option holder) the ability to purchase or sell.

An option contract, as its name implies, provides the buyer the right to buy or sell an underlying asset (stock, bond, currency, commodity, etc.) at a predetermined price on or before a specific date in the future. The fixed cost is referred to as the "strike price" or "exercise price." European vs. American Option

Any time between the time the option contract is written and the expiration date, an American option may be utilized. On the other hand, if it can only be exercised once it achieves maturity, it is referred to as a European option.

Different Options

Any one of the following major categories may apply to an option:

1. Call Option
2. Put Option
3. Double Option

Call option: Under the terms of a call option, the option holder is given the right to buy an underlying asset (such as commodities, foreign currency, stocks, or shares) at a predetermined price known as the "exercise price" or "strike price" on or before a particular date in the future. The call option holder is required to sell the asset at the agreed-upon price if the buyer exercises his option to purchase. As a consequence, the obligation to sell doesn't become a reality until the option is used.

A call option is a financial instrument that entitles the buyer to acquire the underlying asset at a predetermined price on a specific date, but not necessarily to do so. The option vendor grants this benefit to the option buyer. It is important to note that the "buyer of the call option" is the party who is authorized to acquire the underlying asset. The purchase price at which the buyer has the option to acquire the asset is established at the moment of contract signing. It is this sum that constitutes the contract's strike price. (call option strike price in

this case). The call option holder can choose to acquire the underlying asset, but is not required to do so, so he will only exercise the option if and when the market price of the underlying asset is higher than the strike price on or before the contract's expiration date. The call option buyer is not obligated to acquire if he so chooses.

Put options:

The right to sell the underlying commodity at a predetermined price on or before a specified date in the future is provided by a put option. In other words, the put option writer is required to buy the asset at the exercise price if the option holder uses his right to sell.

The buyer is granted the right, but not the obligation, to sell the underlying commodity at a specific price on or before a given date under the terms of a "put option," which is a type of contract. This right is granted to the option buyer by the seller. The person or entity with the power to sell the underlying commodity is referred to as the "buyer of the put option". The amount at which the buyer is authorized to sell the asset is agreed upon at the time of contract execution. This sum represents the contract's strike price (put option strike price in this case). The owner of a put option will only exercise it if and when the market value of the underlying asset falls below the strike price on or before the contract's expiration date. The put option holder has the choice, but not the obligation, to sell the underlying asset. The put option buyer is under no obligation to sell if he chooses not to.

Double options

A double option gives the holder the option of either buying or selling the underlying object at a specified price on or before a specified future date.

Option Premium

In an option contract, the option writer makes a commitment to either purchase the underlying asset from/to the option buyer/seller at his option at a future date for a fixed price, or to sell it to them at his option. This contract needs to be supported by thought, just like any other contract. The sum of money used as the contract's payment is referred to as the "premium". Simply put, the premium is the sum needed to acquire the "right to buy or sell."

One can never lose more than the amount of the premium they pay, so their risk to the market is capped at that. Therefore, his danger was limited to just that. He has endless income potential, though. The premium amount is doubled when the option is increased by two.

Features of an Option contract:

1. Due to their high degree of standardization, option contracts can only be traded on authorized platforms. The requirements of the author and the user cannot be accommodated by such option instruments. But individually negotiated options are also offered and can be traded "over the counter." The requirements of the user and the author can be taken into account when designing these tools. Consequently, it includes "forward" and "future" contract components.
2. Down Payment: Option holders are required to pay an amount known as the "premium" in order to retain the right to exercise the option. The reason for the contract is this. If the option holder decides not to execute the option, the premium will be forfeited. If not, the net payout for the option holder will be computed by deducting this premium from the total payoff.
3. Settlement: There are no exchanges of funds, goods, or shares at the time the contract is signed. This option contract typically ends upon the earlier of the option holder exercising the option or the maturity date. Only when the option is truly exercised does settlement take place. The contract will naturally expire and no payment is required if the option is not exercised by the time it approaches maturity.
4. Non-Linearity: Options don't possess the linearity characteristic, in contrast to future and forward contracts. This implies that the option holder is going to gain when the market value of the underlying asset changes in one direction, but not to the same degree as his loss when the value changes in the opposite direction. In an option contract, profits and losses aren't equal.
5. No Obligation to Buy or Sell: In all option contracts, the option holder is always free to acquire or dispose of the underlying commodity. He is allowed to use this privilege at any time during the term of the agreement. He isn't compelled to purchase or sell, though, under any circumstances. If he does not purchase or dispose, the contract will merely end.

Leaps

Long-Term Equity Prospects The word LEAPS is used to describe securities. These are choices that can mature in a maximum of three years.

Swaps:

Using a predetermined formula, two parties enter into a private contract known as a swap to trade future cash flows. They might be viewed as a group of forward contracts.

The two swaps that are most frequently used are:

- **Interest rate swaps:** In these, only cash flows linked to the same currency's interest are swapped between the parties. A transaction known as an interest rate swap involves exchanging one stream of prospective interest payments for another based on a predetermined principal sum. Two partners are involved. Interest rate swaps frequently involve exchanging a fixed interest rate for a floating rate, or vice versa, in order to reduce or increase exposure to interest rate swings, or to accomplish a slightly lower interest rate than would have been possible without the swap.
- **Currency swaps:** Currency swaps are a vital financial instrument used by banks, global corporations, and institutional investors. Despite the similarity in how these transactions operate Even though these swaps function similarly to stock and interest rate swaps, there are some key differences that make currency swaps unique. To expose themselves to a desired currency, two people engage in a currency swap. In a currency swap, also called a cross-currency swap, interest and, rarely, principle are converted from one currency to another. Interest payments are exchanged at preset intervals over the course of the contract. It is viewed as a foreign exchange transaction.

1.5. Participants and Traders in a Derivative Market

The derivatives market has the same three main types of players as any other financial market:

- **Hedgers:** They are investors who currently or in the future have exposure to the underlying asset, which is susceptible to market risks. Hedgers mainly use the derivatives markets to manage the price risk of their assets and portfolios. Even though these investors have equity positions in the fundamental market, they are worried about possible losses due to upcoming changes in asset prices. Hedgers trade derivatives to set the rates at which they can conduct future transactions. By engaging in the derivatives market, businesses try to reduce price risk. Different hedgers take on a range of roles in the derivatives market depending on how exposed they are to the underlying market. A hedger usually takes a position in the derivatives market that is distinct from his position in the underlying market. The futures market offers the short hedge and long hedge options for hedging purposes.
- **Speculators:** These are the people who have predictions about the future course of the markets. To profit from changes in the price of the underlying commodity, they predict whether prices will rise or decline in the future and buy or sell futures and options accordingly. A speculator is a person who makes wagers on the derivatives market based on his expectations for future price movements of the underlying asset. Speculators trade based on anticipated changes in price in the future, assuming sizable, deliberate risks. Though they might not always succeed, they strive to gain a lot fast. They frequently hold assets for less time than hedgers do. They stand to gain a lot if the underlying price moves in the way they believe it will. Losses, however, could be substantial if the price shifts in the opposing direction of their appraisal.
- **Arbitrageurs:** In an attempt to make money without taking any risks, they make bets on financial markets. Arbitrageurs simultaneously take short and long positions in the same or separate contracts to create a position that has the potential to generate a profit without taking any risks. Arbitrageurs attempt to profit from pricing inefficiencies in the market by carrying out concurrent transactions that balance each other out and produce a risk-free reward. An arbitrageur may also attempt to make money if there is a price disparity between the stock price in the cash market and the derivatives market.

For instance, if the SBI share is trading at Rs. 1780 in the cash market on August 1 and the SBI futures contract is trading at Rs. 1790, the arbitrageur would purchase the SBI shares (i.e., make an investment of Rs. 1780) in the spot market and sell the same number of SBI futures contracts. On expiration day (let's say August 24, 2020), SBI futures contracts will settle at the price at which SBI settles in the spot market. In other words, since the futures contract will be settled at the closing price of the SBI shares, the spot and futures values are said to have converged on the expiry day. The arbitrageur will exchange SBI stock on the spot market for the futures contract at the futures contract's ending price and vice versa on the day of expiration. Due to the arbitrageur's use of offsetting contracts, he will be able to profit by Rs. 10 regardless of the market price on the expiration date.

1.6. DERIVATIVE TRADING

1) DERIVATIVE

A contract whose price is generated from or depends upon an underlying asset is referred to as a "derivative." The underlying asset may be a financial asset like money, stocks, or market indexes, a security that pays interest, or a tangible good. Derivative contracts are traded on a variety of commodities today, including power, weather, temperature, and even volatility.

2) TRADING

Random Walk theory in trading

You must first evaluate if it is even logical to think that trading can be a successful venture before you can decide if you want to become a trader. You must decide in whatever fundamental market theory you believe in order to make that decision.

A statistical phenomenon known as a "random walk" describes a variable's apparent random movement in the absence of any evident trend. The random walk theory, which is most clearly explained by Princeton University economics professor Burton Malkiel, holds that future price movements cannot be predicted using either fundamental or technical analysis because the price of securities fluctuates arbitrarily (hence the name of the theory). The consequence for traders is that there is no way other than pure luck to surpass the market average. The "buy and hold" approach is advised by proponents of the random walk hypothesis, who advise investing in a selection of equities that broadly reflect the market, such as an index mutual fund or ETF.

Non- Random walk theory of trading

The argument of supporters of technical analysis, who believe that future price movements may be anticipated based on trends, patterns, and historical price activity, contrasts with the random walk theory. This viewpoint has the implication that traders with greater market understanding and trading abilities can perform noticeably better than the ordinary trader in the market.

It is up to each person to decide what they think because both sides can provide proof to support their claims. One fact, arguably the most important one, contradicts the random walk theory, namely the existence of some traders who regularly surpass the market average over extended periods of time. The random walk theory states that a trader can only outperform the market as a whole through accident or luck. This would allow for the possibility of some traders beating the market average at any given period solely by accident. But what are the chances that the same dealers will continue to experience "luck" for decades? But what are the chances that the same dealers will continue to experience "luck" for decades? However, there are some traders who have been able to consistently produce above-average trading returns over a lengthy period, such as Paul Tudor Jones.

Technique for market analysis

The two main, all-encompassing techniques to market analysis and trading are fundamental analysis and technical analysis. Each strategy has its proponents and opponents, as well as extremely successful and unsuccessful traders.

Fundamental analysis

Fundamental analysis aims to discover an asset's true, intrinsic value by assuming that an object's underlying value will ultimately determine its price. By considering elements such as general economic conditions, industry trends, company management, profit and loss data, and any of a number of financial metrics used to assess the financial health and future prospects for a company, fundamental market analysts try to determine the intrinsic value of a stock or other security. Several of the most well-known financial measures include the price-to-earnings ratio (P/E), price-to-book ratio (P/B), debt-to-equity ratio (D/E), return on investment (ROI), and return on assets. (ROA). Fundamental stock traders primarily rely on information from reports like a company's quarterly and yearly earnings reports to calculate earnings-per-share, which represents a firm's profitability divided by the total amount of publicly traded equity in the company. Fundamental traders can further evaluate published financial statements of publicly traded companies, such as a company's income statement and balance sheet.

Technical analysis

A type of analysis called technical analysis is employed to assess stocks and other financial assets. It is predicated on the notion that prices frequently follow trends, which can be recognized and used to guide financial choices. Charting, moving averages, momentum indicators, and volume are some of the instruments used in technical analysis to spot market trends. It is used to determine levels of support and resistance, produce trading signals, and judge the force of a pattern. To help investors make better investment choices, technical analysis is frequently combined with fundamental analysis.

Derivative Trading

Trading financial instruments whose worth is based on the value of an underlying asset or another financial instrument is known as derivative trading. When speculating on an asset's potential course or hedging against asset-related risk, derivatives are used. Futures, options, swaps, and exchange-traded funds (ETFs) are typical derivatives.

Futures contracts bind the buyer to make the purchase of a specific asset at a fixed price on a specific future date. The right to purchase or sell an asset at a predetermined price on a specific date in the future is provided by options, but it does not come with any obligations. Swaps are contracts between two parties whereby the cash flows based on the fundamental assets are exchanged. A specific commodity or market index is tracked by exchange-traded funds. By adopting a long position when an investor anticipates an increase in the asset's price or a short position when an investor anticipates a decrease in the asset's price, derivatives are used to speculate on the future direction of an asset.

Additionally, derivatives can be used to protect against asset-related risk. The investor can hedge against a drop in the value of the underlying asset by having a long position in a derivative. In contrast, the investor can hedge against a rise in the value of the underlying asset by having a short position in a derivative. In conclusion, investing in financial instruments whose value is drawn from the value of an underlying commodity is known as derivative trading. With the aid of derivatives, one can make predictions about the path an asset will take in the future or protect themselves from asset-related risk.

Due to the use of leverage, which can result in significant losses if the market moves against the investor, derivative investing can be risky. A solid knowledge of the fundamental asset and the markets where derivatives are traded is also necessary for successful derivative trading. Therefore, before engaging in any transactions, it is crucial to comprehend the risks associated with derivative trading.

Trading in derivatives entails using derivatives to make predictions about the future value of an underlying commodity. A financial instrument called a derivative derives its worth from the value of an underlying asset. Without actually owning the fundamental asset, investors can speculate on possible price changes through derivative trading.

Derivatives can be used as a risk management tool or to make predictions about possible changes in the value of the underlying asset. Options, futures, and swaps are a few examples of derivatives that are used in investing. The buyer is given the option to purchase or sell the underlying asset at a predetermined price on or before a predetermined date, but not the obligation to do so. Futures contracts are a type of derivative that call for the consent of both parties to purchase or sell a particular asset at a set price on a set date. Swaps are arrangements between two parties whereby cash flows dependent on the movement of a specific asset are exchanged.

CHAPTER 2: LITERATURE REVIEW



LITERATURE REVIEW

- **N. Arunsankar (2020)**

According to reports, investors have a strong preference for security. The majority of participants have invested in the cash category rather than the derivative market. The degree of interest in the spinoff market among investors is great, but they are not any more interested in participating owing to the high level of risk. Because many purchasers indicated an interest in learning more about the derivative market area. Statistics research has revealed information on investor demographics and investing preferences. Guidelines for increasing market participation have been based primarily on the investor profile and investor interests.

- **Gautami and Nalla Bala Kalyan (2018)**

In this, it is mentioned that as part of the financial reforms, new instruments and financial reengineering have been implemented in India since 1991. One area where invention and advancement have been slow to come about is the adoption of derivatives. In India, the derivatives market has only recently begun to appear and grow.

The derivatives market has experienced exponential growth in terms of both the number and variety of traded contracts since its inception in June 2000. The term "derivatives" refers to a wide variety of financial instruments, mainly futures and options. The value of these instruments is determined by the base asset's price and other related factors. They have no inherent value and derive their value from the claim they give their bearers to the ownership of additional financial assets or security.

- **Meenakshi Bindal (2018)**

Investors believe, according to this study, that large returns in the derivative instruments are the biggest hurdle to investing. As a result, institutions should strive to keep the margin as low as possible. They also mentioned how derivatives markets allow normal people to grow their investments and savings over time.

Derivatives, they claim, have a track record of attracting a huge number of intelligent, innovative, well-educated professionals with an entrepreneurial mind. They often inspire others to establish new businesses, launch new products, and create fresh employment opportunities, all of which benefit greatly. Finally, over time, derivatives markets help ordinary individuals increase their savings and investments. Market participants might enhance the volume of their activity by transferring risk.

- **Mr. S. T. P. Raghavan, Dr. Aravind Singh Tomar (2017)**

In this it is stated that derivatives industry has a fascinating history of pulling many intelligent, creative and educated people with an entrepreneurial mindset. They frequently inspire people to start new enterprises, new products, and new job opportunities, all of which have enormous benefits. Finally, derivatives markets assist regular investors in increasing their long-term savings and investments. Risk transfer allows market participants to increase their volume of activity.

According to this, the majority of investors are between the ages of 25 and 35 and are mostly government employees. As a result, organisations dealing in derivatives products can use these factors to develop appropriate marketing activities for them, attracting them to engage more in derivatives markets. It has also been discovered that investors invest up to 30% of their earning in marketable securities, as well as develop products with lower market risk, and the reliability of the organisation should be described briefly to the investors. Investors believed that the large margin in the derivative segment was the biggest obstacle to investing, therefore, institutions should endeavour to minimize the margin.

• **Mamtha & Srinivasan (2017)**

According to Mamtha and Srinivasan (2017), the Indian derivatives market has revolutionised with innovative financial products to become a high net worth market throughout the years, earning an appropriate and efficient platform for investors from across the world to invest. This article discovered that investors are heavily impacted by numerous factors while investing in the derivatives market based on their risk tolerance.

Despite the researchers' conflict on the type of influence that the futures market has on the underlying spot market, the majority of them agree that it is beneficial regardless of whether volatility is enhanced or decreased because the futures market acts as a catalyst for the dissemination of information.

• **Dr. Shree Bhagwat, Angad Singh Maravi, (2016)**

The Indian derivatives market has grown dramatically over the years, and it also has a lengthy history of trading in numerous derivatives products. Commodity derivatives play an important role in price risk management, particularly in agriculture-dominated economies. Forwards, futures, options, swaps, and other derivatives are widely employed in many developed and developing countries around the world. However, they have only been used on a small basis in India. Since 2002-03, the commodity future marketplace has seen numerous advances in the history of commodity derivatives. In terms of volume of trading, number of products on offer, participants, and technology, the commodity derivatives market has grown dramatically.

Commodity derivatives serve two critical tasks in the economy: price discovery and risk management. It enables buyers and sellers of agricultural products to quickly handle their trade at a reasonable price. Commodity trading also provides hedgers, speculators, and other traders with the opportunity for financial leverage. The expansion of India's commodities derivatives market will lead to additional advancements in the area of electronic warehouse receipts, which may enable a flawless countrywide commodity global market. It would fortify the Indian economy in order to meet the challenges of globalization.

• **K Sarathkumar, SP Dhandhayuthapani (2016)**

Investors' attitudes toward the derivative marketplace in India have shifted in recent years, and the scholar hopes to highlight this with the introduction of behavioural finance. The theory of behavioural finance is spreading throughout the capital market; there is almost no location where it is not being used. Investors that are averse to risk usually try to be cautious by trading in fixed deposits, mutual funds, treasury bonds, insurance, and securities. Other risk takers who want to make greater yields choose to invest in the derivative market.

Investors are now conscious of the derivative market. As the derivative market provides a higher return on investment by hedging interest rate and currency rate risk with highest rewards and minimal losses. In recent years, there has been increased awareness of derivatives trading across Indian investors. The majority of respondents are between the ages of 31 and 40. The large percentage of responders (81.5%) are male as they are willing to accept risks in their investments, whereas females avoid taking risks.

• **Indu Gautam, PC Kavidayal, (2016)**

The first impact of derivatives trading manifests itself in the form of huge volume and liquidity in the Indian market. Price discovery is underway, and volatility has generally decreased. Experienced derivatives traders view derivatives as risky instruments and therefore safe bets. According to them, it is not possible to earn as high a profit as them. They believe that individual investors should be trained in the variety of derivatives available and how they work. Investors need to be aware of the complexity inherent in derivatives trading.

In addition, young derivatives traders are very smart, fully aware of the potential of derivatives and risk takers. They want the speed of product innovation to accelerate. They want the role of financiers' legalization advisors so that they can advise investors entering the market. They fully support derivatives. Factors such as reduced transaction costs, product innovation, investor awareness, training and engagement, legalization advisors and extended trading times could pave the way for future growth in derivatives products market in India.

• **Dr. Y. Nagaraju (2014)**

It is examined in this that investors' attitudes about derivative instruments and marketplaces. The study demonstrates that, while most individuals are afraid of derivatives, they must realize that derivatives serve to transfer risk to the other side. There are numerous fallacies surrounding the derivative market. All of this may be avoided if a suitable system has been set up. Individual investors are less interested in derivative instruments and marketplaces.

• G Tripathi, (2014)

Even after more than a decade of existence, it can be seen that investors' awareness of hedge funds is still low, and they still prefer to invest in safe investments with yields.

Moreover, Tripathi shares in his research report that there is no difference in the perception of men and women towards investing in derivatives because we find that there are few female investors, but these female investors are also knowledgeable about derivatives, and there is no significant difference in the perception of men and women.

Options and futures contracts are considered to be the dominant instruments in the derivatives market because Swaps are not popular among Indian investors. Limited and minimal risk investment are two important factors that motivate investors to invest in options followed by another feature of options i.e., unlimited profit. Investors mainly use their own research or a broker's advice for investing in derivatives. Reasons not to investing in derivatives is a lack of complex knowledge and understanding of derivatives.

• Dr. Babaraju k. Bhatt, Dr. Apurva Chauhan (2014)

According to the findings of the study, majority of investors invest in the derivative market based on their own knowledge and advice from financial advisors and brokers. The majority of investors favoured stock index funds to individual securities. Retail investors are indeed considering participating in the derivative area, with 49% of investors disagreeing that derivatives are solely acceptable for institutional investors. There is a strong positive connection between respondents' age and their choice to engage in derivatives, and a substantial negative link between respondents' yearly income and their choice to invest in derivatives.

Results demonstrate that while deciding whether to invest in derivatives, investors prioritise aspects such as hedging funds, controlling risks, their own expertise of financial products, and significant fluctuation in the share market, among others.

• Soumya Mukesh (2013)

According to his research, commodity derivatives play an important role in the price risk mitigation process, particularly in agriculture-dominated economies. Forwards, futures, options, swaps, and other derivatives are widely employed in many developed and developing nations worldwide. They have, however, been used on a very small basis in India. The government controls the production, supply, and distribution of numerous agricultural commodities, and only forward and futures trading is allowed in specific commodity products.

• Arvid O.I. Hoffmann, Thomas Post and Joost M.E. Pennings (2012)

According to their research report, investor opinion fluctuated dramatically throughout the 2008-09 global recession, with tolerance for risk and perception of risk seem to be less erratic than return expectations. Investors' return estimates and risk appetite fall during the most difficult months of the downturn, while risk perception rises.

Investor opinions begin to improve near the end of the recession. They also discovered significant fluctuations in investing and risk-taking caused directly or indirectly by shifts in investor perceptions. Individual investors remained active traders and did not de-risk their stock portfolios during the recession.

• R. T. Nirmal Kumar and Balaji. K (2011)

In this research, it is empirically tested how investors perceive futures markets trading in India. Commodity futures markets have grown dramatically since 2004. It was discovered that, despite the fact that derivatives trading in the stocks market only began in June 2000, it was developing at a rapid pace, but commodity derivatives markets, which had been functioning for approximately 48 years at the time, were only gradually waking up.

It is clear that professional players are barred from participating in commodity futures trading in India. Thus, Retail Investors are the dominant player in the Commodities Futures market. This study was conducted to determine investors' perceptions of commodity futures trading as well as their level of awareness about commodity futures trading.

• Naliniprava Tripathy (2010)

This study looked at probable expiration impacts on the nifty index by analysing volume of trade and return processes on closure days as well as during maturity weeks to a group of comparative days and weeks. Our findings indicate that the daily returns and fluctuation on the maturity day are not substantially distinct from the volatility and returns on other days. However, at 95% confidence, the volume of trading on the maturity day differs dramatically from the trading volume on some other days.

The impacts of the expiry week on volatility and trading volume were also investigated, and it was discovered that the weekly gains and volatility spill overs of NIFTY futures during the expiration week are not substantially different from the returns and volatilities during other comparative weeks. For the whole period of analysis, the findings indicate that there are no price deviations on the expiration day or throughout the expiration week. The analysis also discovered that the day of the week impact does not exist in nearly each one of the NIFTY futures indices.

When examining for the day of the week impact for the fifty shares that comprise the NIFTY, it is discovered that thirty-eight shares display the daily effect during the rising stage and nine stocks do not. During the unfavorable period, five equities indicate the weekday impact and forty stocks do not. One of the study's shortcomings is that it used the K-W test, which only provides a suggestive result rather than a decisive one. Second, we collected data during a two-year period. This is mostly a turbulent moment in the Tripathy 218 global financial markets.

As a result of the identical span of time used in the financial markets, the day of the week impact in derivatives and shares has produced similar outcomes. This can be related to the fact that throughout certain market stages, all investors believe in a similar way and are led by identical inclinations.

- **Ravichandran (2008)**

It is investigated that the investors' interests for variety of investment paths in the financial market, with a focus on derivatives. According to the report, trading in share markets is currently the most tough proposition for experts.

Derivatives are an important tool for lowering the risk of a stock market investment and achieving the best outcomes. The report also emphasises the need of investors being aware of the numerous hedging and speculation tactics that can be employed to reduce risk. Investors who are mindful of the many implications of derivatives can minimise risk and boost earnings.

- **Bose Suchismita (2006)**

In his research, he analyzes the derivative as a risk management tool. Derivatives products were discovered to give significant economic advantages such as risk management or risk redistribution away from risk averse investors and toward those more willing and able to absorb risk. Derivatives also aid in price discovery or identifying the price level of any asset based on supply and demand. These derivative functions aid in the effective allocation of capital in the economy; yet their misuse endangers the financial sector's and the general economy's sustainability.

- **Steiner (2000)**

According to Steiner (2000), derivatives are the dynamite of financial collapse, and their overall rise in the past several decades has made financial meltdown significantly more severe.

Steiner's viewpoint is a part of a continuing argument regarding the appropriateness and desirability of derivative instruments, which highlights that their use poses a risk to global financial stability. Derivatives are a powerful tool for extreme and unbalanced speculation, which can lead to financial insecurity by raising price fluctuations and generating new sorts of hazards.

- **Kumar R. & Chandra A. (2000)**

Kumar R. and Chandra A. analysed arbitrage potential in the derivative market closely. They observed that people frequently buy in stocks based on a general rule of thumb rather than strictly on economic conditions. Their trading behaviour is influenced by their sentiments, which in turn influence asset (stock) prices.

Investors are susceptible to their own mistakes as well as the mistakes of others, a phenomenon known as herd mentality. Markets are efficient, but this is increasingly proving to be a theoretical concept because they rarely move efficiently in actuality. The fully logical method is giving way to a wider strategy that focuses on investor trading attitudes.

CHAPTER 3: RESEARCH METHODOLOGY



3.1. Research Problem Statement: Determining students' perception about the Derivative trading.

3.2. Objectives of the study:

- **Primary Objective**
- To get insights about the students' perception in respect to derivative trading.
- **Secondary Objectives**
- To derive with the investment pattern towards derivatives.
- To evaluate the level of awareness about derivatives among the MBA students.

3.3. Type of Research Design:

- The type of Research design used is the Descriptive Research Design.
- For this project, Descriptive Type of research design which falls in conclusive type of design is used as it describes data and characteristics about the phenomenon being studied. Descriptive research answers the questions who, what, where, when and how.

3.4. Scope of the Research

This research will provide useful insights about the students understanding of derivatives and why or why not students are indulging in derivative trading.

This study will also assist the further study in this direction on varietal aspects.

3.5. Sampling Plan:

Population: The total number of MBA students at Mittal school of business

- i. Sample Size: The project is made with sample size of 115 students.
- ii. Sampling Method: There are two types of Sampling Method 1) Probabilistic Sampling Method & 2) Non-Probabilistic Sampling Method. In this study we used purposive sampling method, a type of non-probability sampling method is adopted. **Purposive sampling** technique is used to derive with the intention of students regarding derivative trading.
- iii. Sampling Element: The MBA student possessing the knowledge of financial market.

3.6. Sources of Data collection

- **Primary data**
- Primary data is collected by using survey method: Google form.
- **Secondary data**
- A bit of secondary data is used from the official websites.

3.7. Data Analysis Techniques:

Data has been analysed by using count and percentage and interpreted by the bar charts, pie charts and line diagrams.

3.8. Limitations of the Study:

- Appropriateness of secondary data
- The sample size 115 is small, for drawing an exact conclusion for the population.
- There is a chance of reluctance on the part of respondents.

CHAPTER 4: DATA ANALYSIS & INTERPRETATION



DATA ANALYSIS & INTERPRETATION

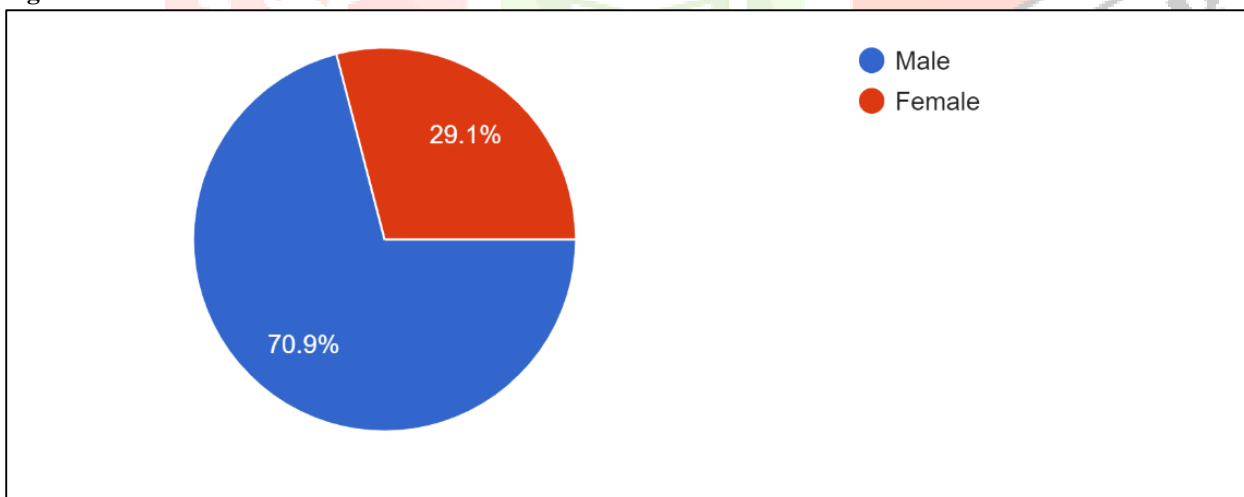
1) Gender

Analysis: The below table displays the investment behavior towards derivative trading on the basis of gender

Table No. 1

Gender	Count of Gender	Percentage
Female	34	29%
Male	83	71%
Grand Total	117	100%

Figure No. 1



Interpretation:

From the above table no. 1 and figure no. 1, we can interpret that there are more male students as compared to female students that are engaged in investment behavior. Male students are proportionately 42% more than the female students. However, research suggests that men and women may approach investing and financial decisions differently, with women tending to be more conservative and cautious when it comes to investing while men may have more experience and knowledge of the derivatives markets and be more confident to invest. Male students are more comfortable with the complexities of derivatives markets and thus be more likely to invest in them.

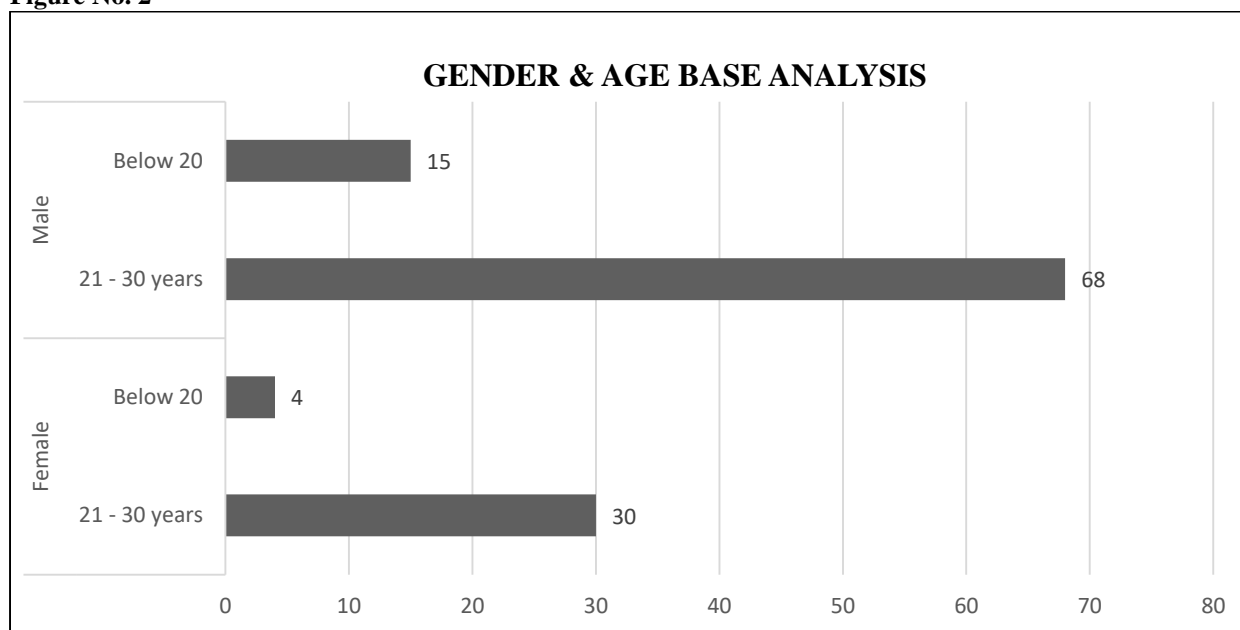
2) Age

Analysis: The below table shows the investing preferences towards derivative trading on the basis of gender & age

Table No. 2

Row Labels	Count of Gender	Percentage
Female	34	
21 - 30 years	30	26%
Below 20	4	3%
Male	83	
21 - 30 years	68	58%
Below 20	15	13%
Grand Total	117	100%

Figure No. 2

**Interpretation:**

From the above table no. 2 and figure no. 2, we can interpret that while analyzing the age group of investor's majorities of investment activity is among those who are between the age group of 21 - 30 years while comparing to others. This alone indicates that people in this age bracket are capable of taking on more risk and have more experience as the derivative market is usually more suitable for experienced investors with a good understanding of the risks associated with it.

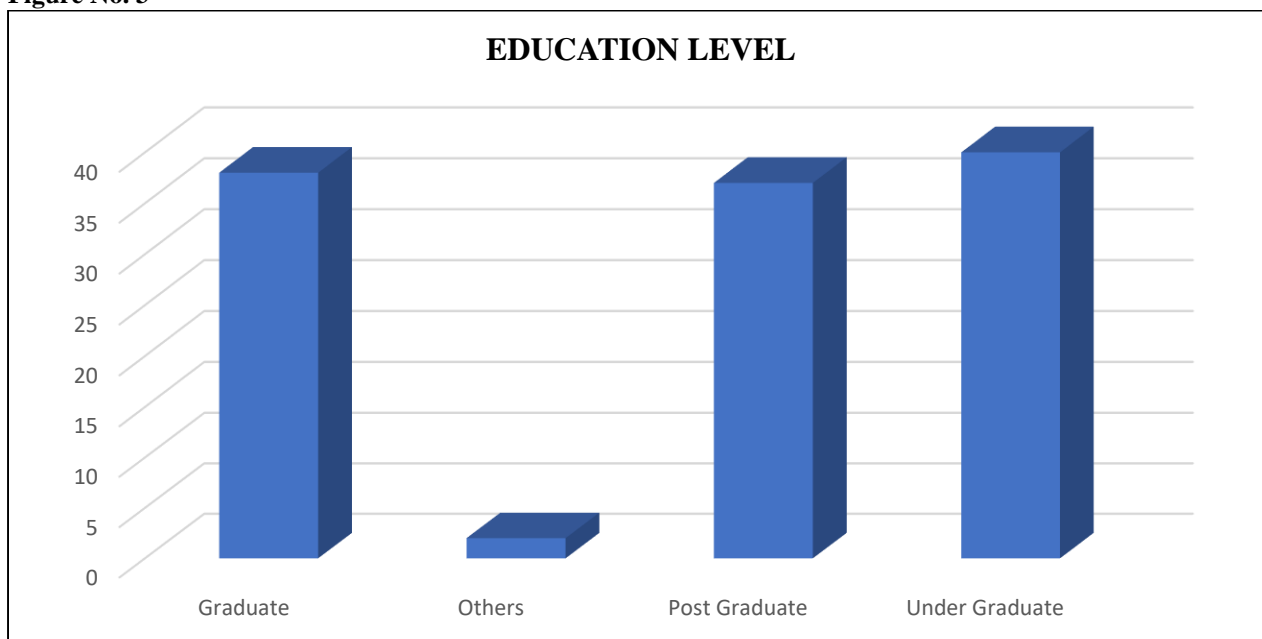
3) Educational Qualification

Analysis: The below table shows the education level of investors trading in derivatives

Table No. 3

Education level	Count of Educational Qualification	Percentage
Graduate	38	32%
Others	2	2%
Post Graduate	37	32%
Under Graduate	40	34%
Grand Total	117	100%

Figure No. 3

**Interpretation:**

From the above table no. 3 and figure no. 3, we can interpret that qualification has a relationship with investment pattern as it helps investors understand the fundamentals of the derivative market and the various instruments available for trading. As we can see, undergraduate students have a higher tendency for trading than other students, while the educational level of postgraduate students is similarly high at 32%. Student investors who have a strong educational foundation can make wise selections and lower their chance of losing money.

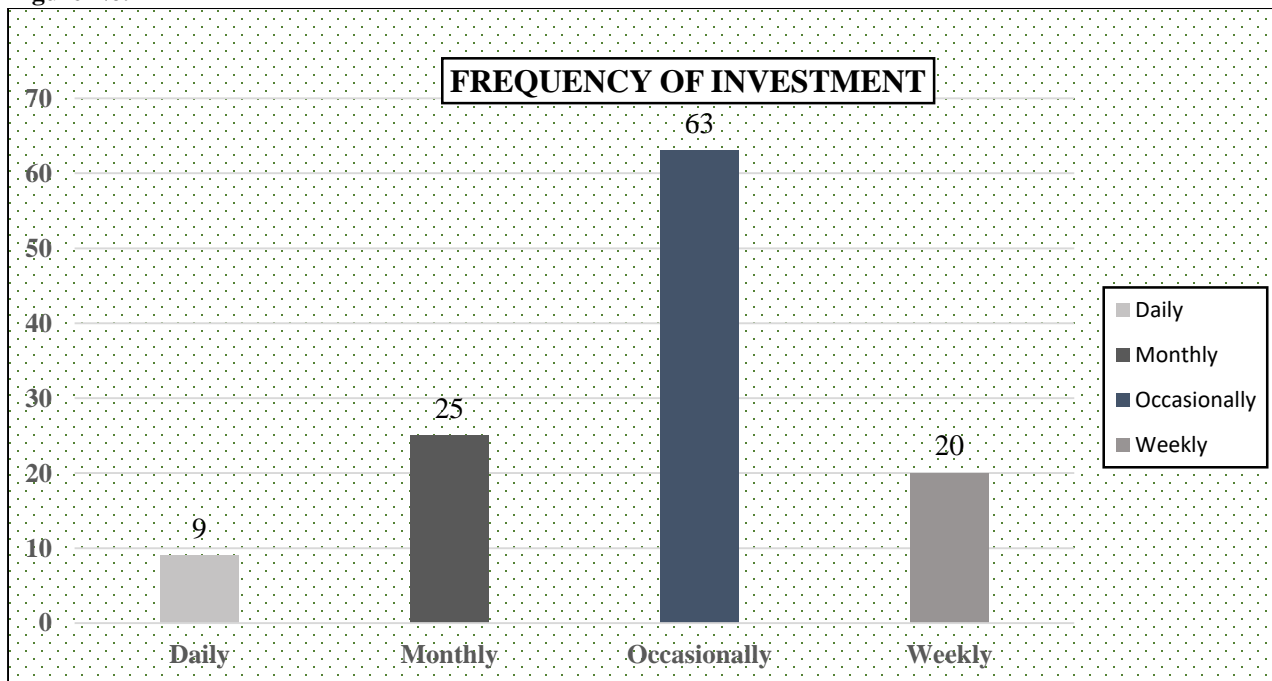
4) Frequency of Investment

Analysis: The below table shows how frequently the investors invest in derivatives market

Table No. 4

Row Labels	Frequency	Percentage
Daily	9	8%
Monthly	25	21%
Occasionally	63	54%
Weekly	20	17%
Grand Total	117	100%

Figure No. 4

**Interpretation:**

From the above table no. 4 and figure no. 4, we can interpret that 54% of student investors are trading occasionally and 21% of investors trade monthly. Occasional investing in derivatives can be risky, as the prices of these contracts can be volatile, and the investor can incur significant losses if the underlying asset performs poorly. Therefore, it is important for investors to understand the risks involved in trading derivatives and to use sound risk management techniques.

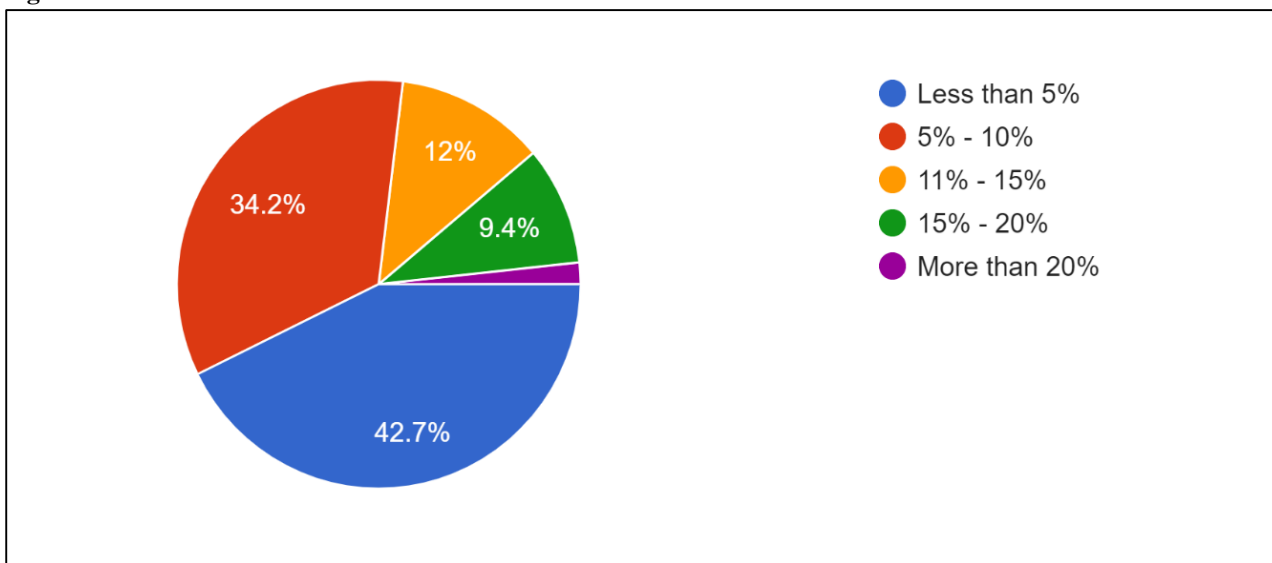
5) Total savings invested

Analysis: The below table displays the proportion of total savings trade in derivatives

Table No. 5

Proportion invested	Percentage of respondents	No. of respondents
11% - 15%	12%	14
15% - 20%	9%	11
5% - 10%	34%	40
Less than 5%	43%	50
More than 20%	2%	2
Total	100%	117

Figure No. 5

**Interpretation:**

From the above table no. 5 and figure no. 5, we can interpret that students invest their savings which is less than 5% and that they participate in this activity at a higher rate than other respondents which is 43%. Only a small percentage of respondents—about 2%—spent more than 20% of their savings. Many people are also interested in investing 5% - 10% of their savings. Savings invested in the derivative market is important as they provide benefits to earn higher returns than other investments.

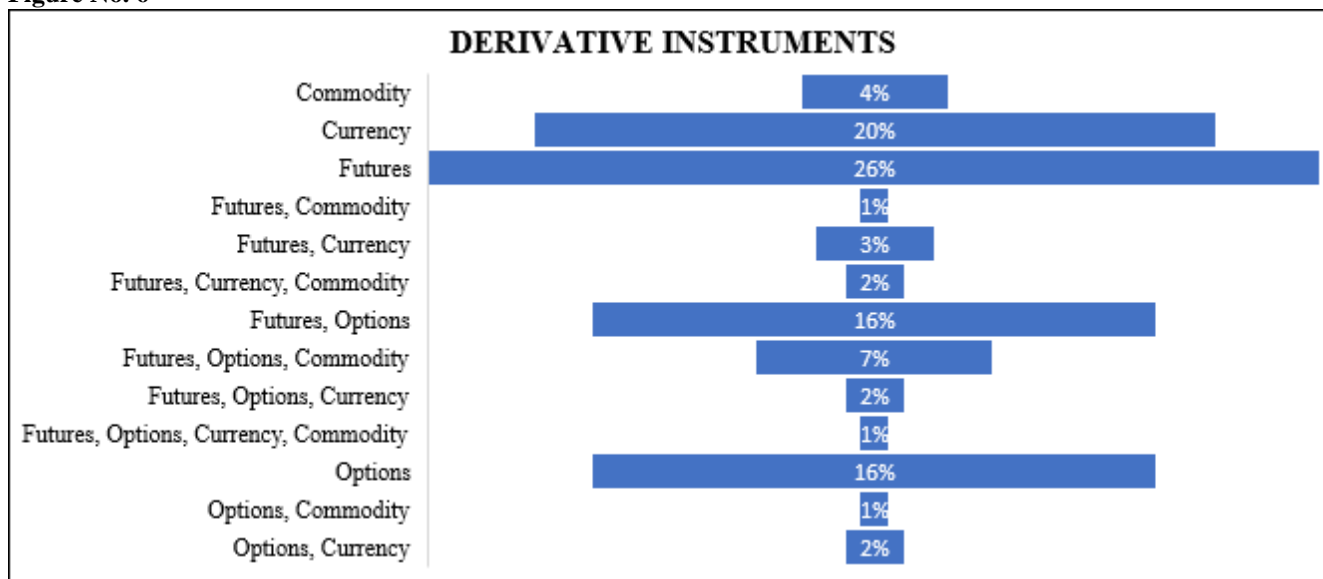
6) Derivative instruments

Analysis: The below table listed the derivative instruments preferred by the investors

Table No. 6

Interest	Percentage	Number of person
Commodity	4%	5
Currency	20%	23
Futures	26%	30
Futures, Commodity	1%	1
Futures, Currency	3%	4
Futures, Currency, Commodity	2%	2
Futures, Options	16%	19
Futures, Options, Commodity	7%	8
Futures, Options, Currency	2%	2
Futures, Options, Currency, Commodity	1%	1
Options	16%	19
Options, Commodity	1%	1
Options, Currency	2%	2
GRAND TOTAL	100%	117

Figure No. 6

**Interpretation:**

From the above table no. 5 and figure no. 5, we can interpret that 26% of respondents are interested in Futures. Investors are interested in futures derivative instruments because of their potential to generate greater returns than other investments. Futures allow investors to leverage their capital and make bigger bets with a lower amount of capital. Additionally, many futures markets are highly liquid, meaning investors can enter and exit their positions with ease.

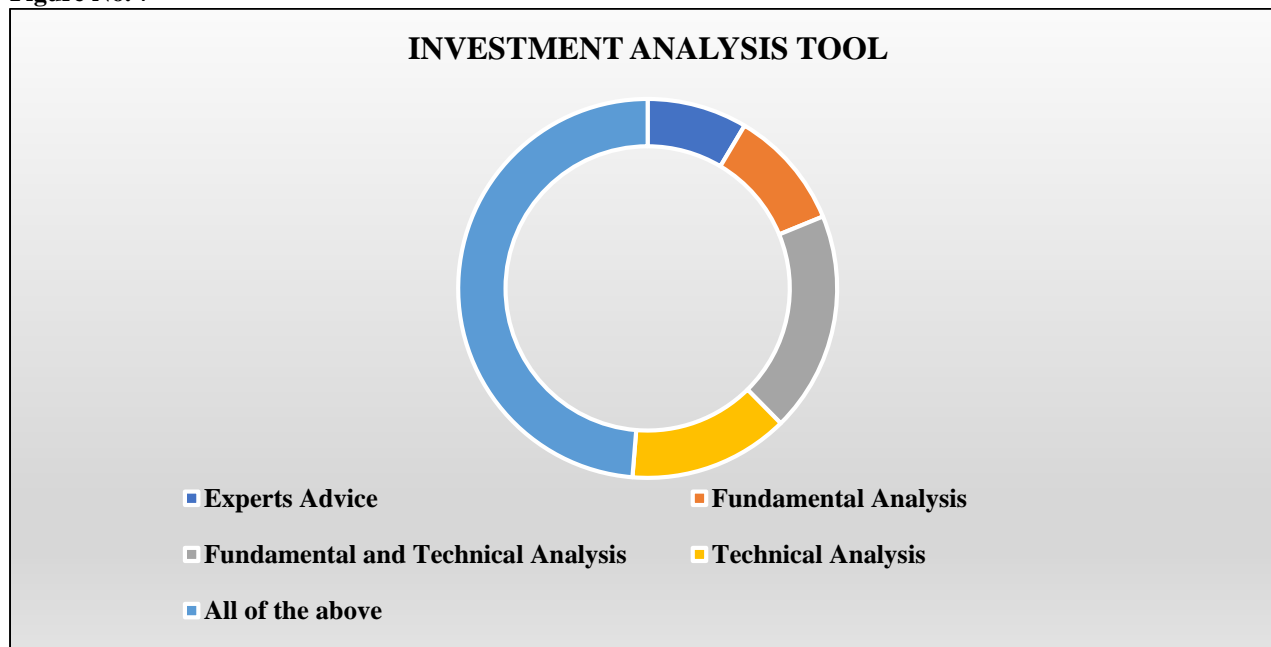
7) Kind of analysis

Analysis: The below table indicates the kind of analysis used to make investments in the derivative market

Table No. 7

Tools for selection	Percentage	No. of respondents
Experts Advice	9%	10
Fundamental Analysis	10%	12
Fundamental and Technical Analysis	19%	22
Technical Analysis	14%	16
All of the above	49%	57
Grand Total	100%	117

Figure No. 7

**Interpretation:**

From the above table no. 7 and figure no. 7, we can interpret that the majority of investors obtain guidance primarily from all available sources, including experts' advice, fundamental analysis, and technical analysis. Most of the people utilize fundamental and technical tools for analysis (19%). Fundamental analysis helps traders understand the underlying asset, which helps them make more educated decisions about whether to buy or sell a derivative. Technical analysis helps traders identify trends, identify key levels of support and resistance, and time entry and exit points more accurately.

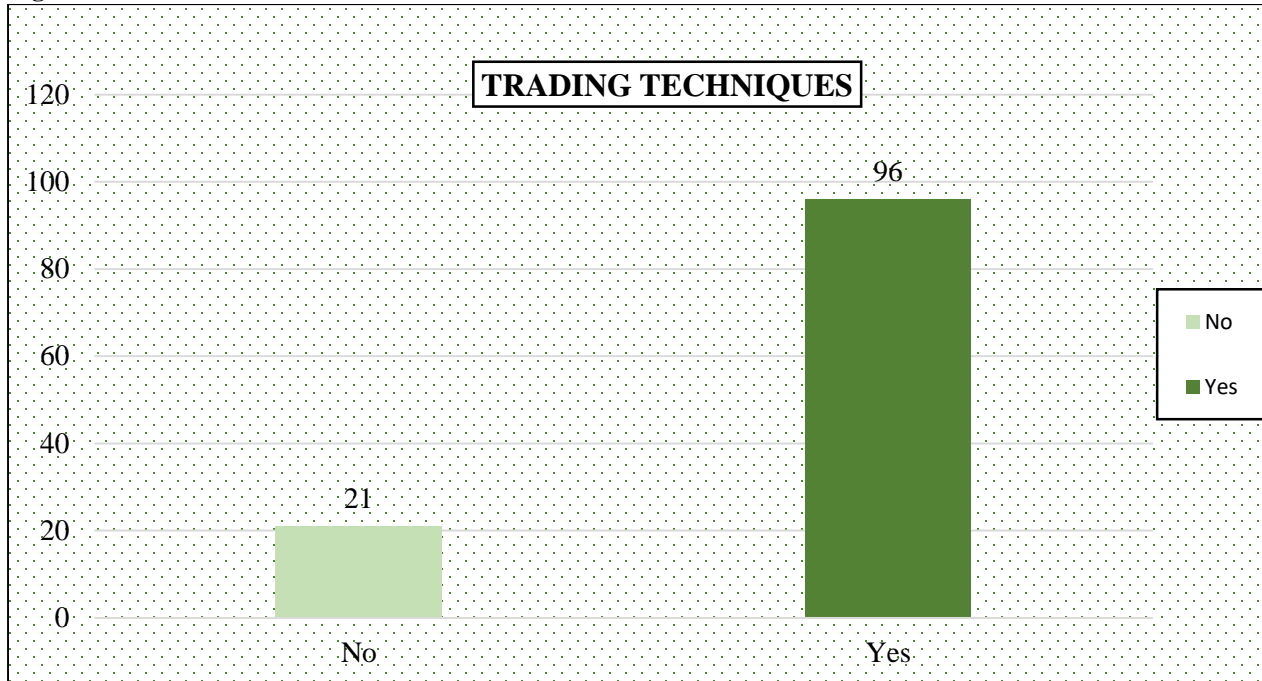
8) Trading techniques

Analysis: The table below demonstrates whether or not the students who are engaging in derivative trading are using any trading techniques

Table No. 8

Row Labels	Apply
No	21
Yes	96
Grand Total	117

Figure No. 8

**Interpretation:**

From the above table no. 8 and figure no. 8, we can interpret that the students are more engaged in using various trading techniques for derivatives trading and to earn higher returns. They engage in trading techniques while trading in the derivative market in order to reduce the risk associated with their investments and manage their portfolios more efficiently. These trading techniques can include using futures, options, and other derivatives to hedge against price fluctuations, taking advantage of arbitrage opportunities, and using various technical analysis tools to try and predict future price movements.

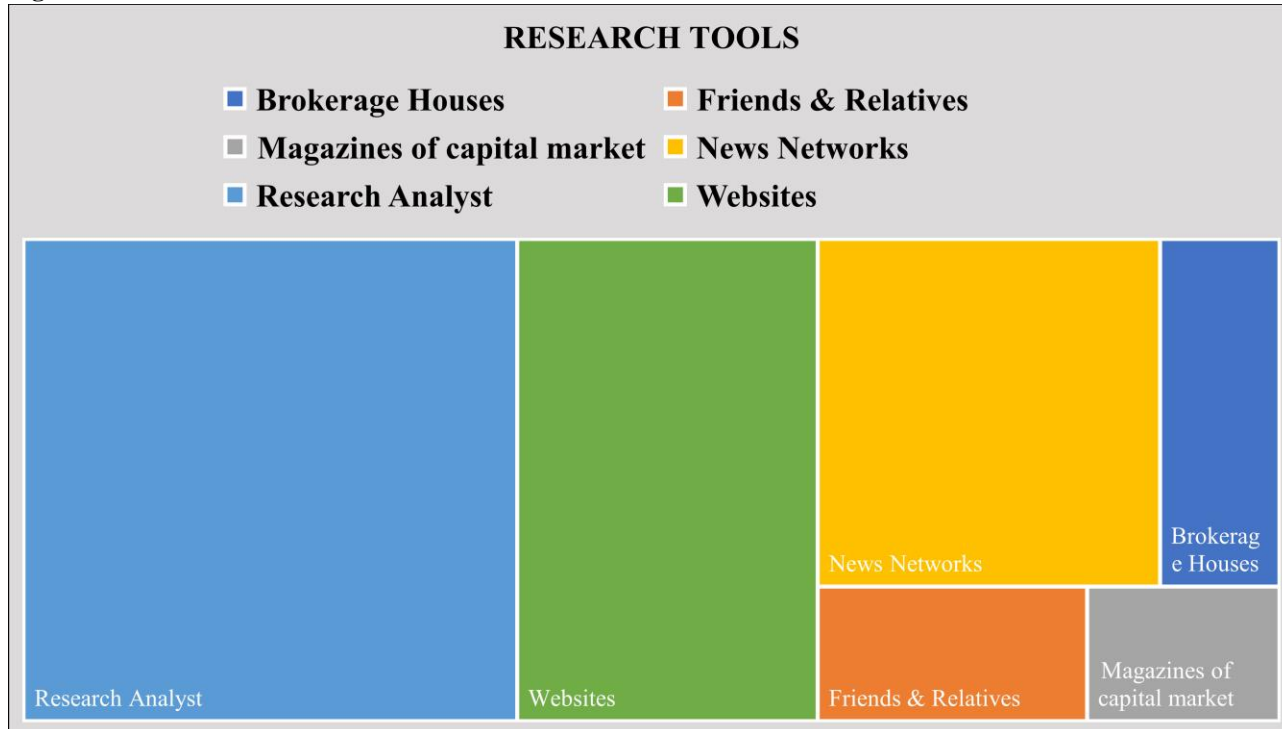
9) Research tools for investment

Analysis: The below table listed describe the resources utilized by the investors to obtain guidance about the derivatives market

Table No. 9

Research tools	Percentage	N.O.R
Brokerage Houses	7%	8
Friends & Relatives	6%	7
Magazines of capital market	4%	5
News Networks	20%	23
Research Analyst	39%	46
Websites	24%	28
Total	100%	117

Figure No. 9

**Interpretation:**

From the above table no. 9 and figure no. 9, we can interpret that advice related to derivative trading are obtained from research analyst for most of the respondents. They take advice from resources while trading in a derivative market as it provides them with valuable market insights, research and analysis to make more informed decisions. News networks and websites also provide investors with up-to-date information on the markets and can provide advice on the best strategies and tactics to use when trading in the derivative market.

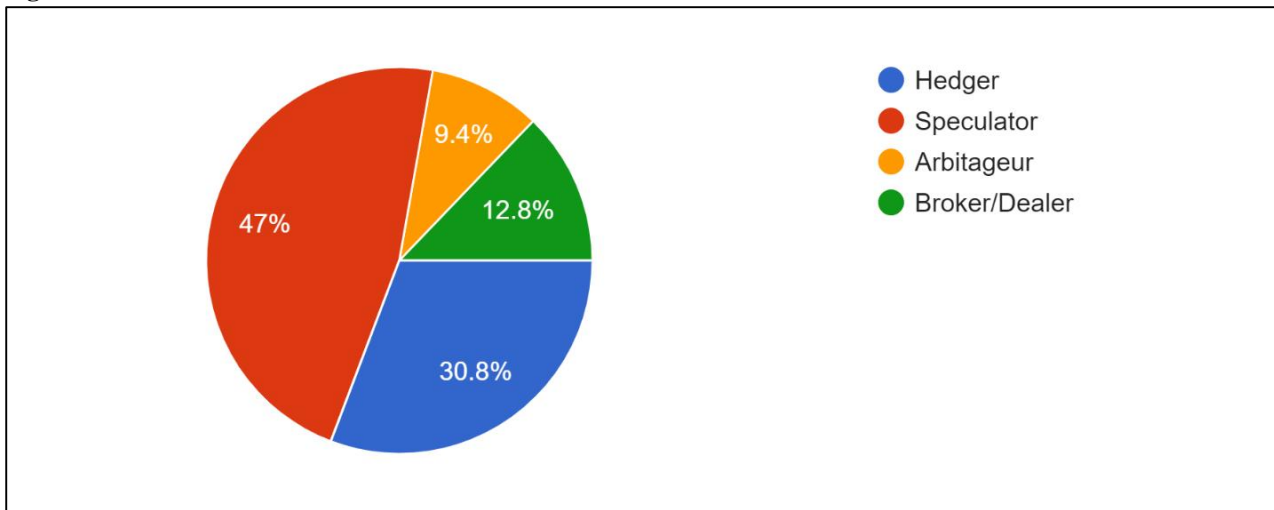
10) Engagement in derivative market

Analysis: The below table displays how the investors are engaged in the derivative market activity

Table No. 10

Player	Percentage	N.O.R
Arbitrageur	9%	11
Broker/Dealer	13%	15
Hedger	31%	36
Speculator	47%	55
Total	100%	117

Figure No. 10



Interpretation:

From the above table no. 10 and figure no. 10, we can interpret that investors are majorly engaged as speculators who take part in the derivative market with the intention of making profits through predicting and betting on the future market movements. The role of speculators in the derivative market is to provide liquidity which helps keep the markets stable. Many respondents also involve in derivative trading as a hedger who seeks to reduce or eliminate the risk of an existing position in the underlying asset by taking an offsetting position in a derivative instrument.

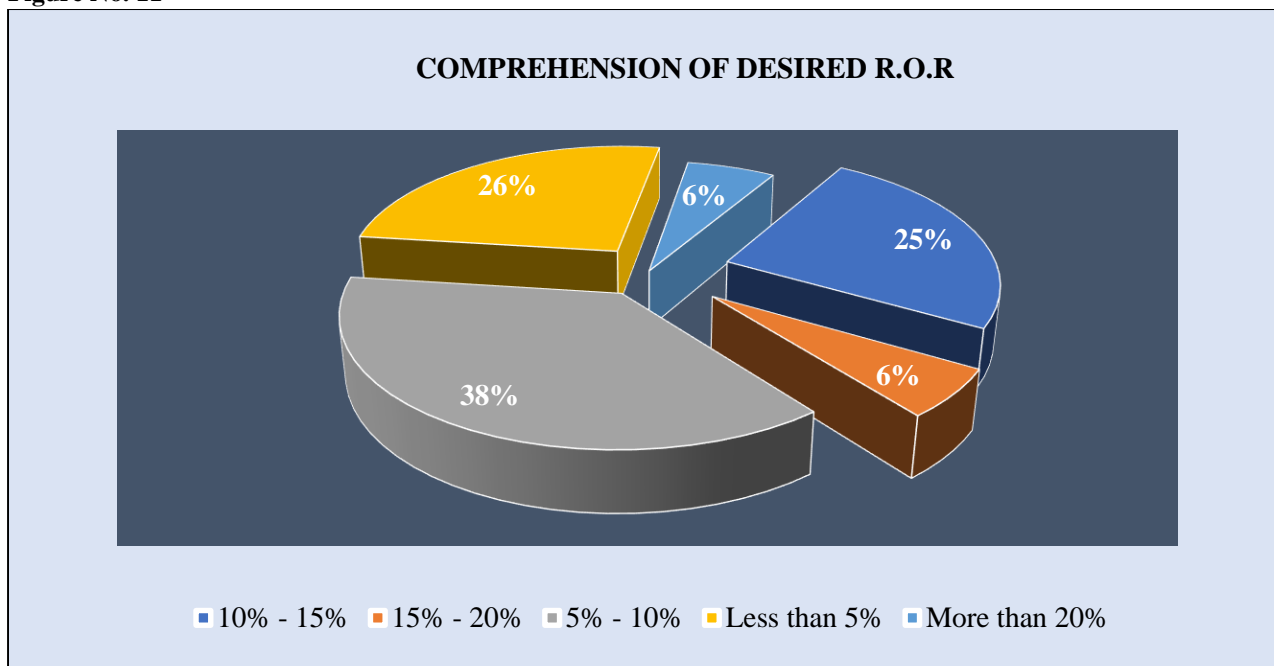
11) Rate of return

Analysis: The below table listed displays the rate of return projected from the derivatives market

Table No. 11

Required R.O.R	Percentage	N.O.R
10% - 15%	25%	29
15% - 20%	6%	7
5% - 10%	38%	44
Less than 5%	26%	30
More than 20%	6%	7
Total	100%	117

Figure No. 11

**Interpretation:**

From the above table no. 11 and figure no. 11, we can interpret that between 5% and 10% is where investors believe the greater rate of return expected from the derivatives market to be. The required rate of return, according to 26% of respondents, is less than 5%. Higher rates of return also come with a higher risk. This is because derivative contracts are very complex and can involve a great deal of leverage, or borrowing, in order to increase potential returns. As such, they can also lead to greater losses if market conditions change.

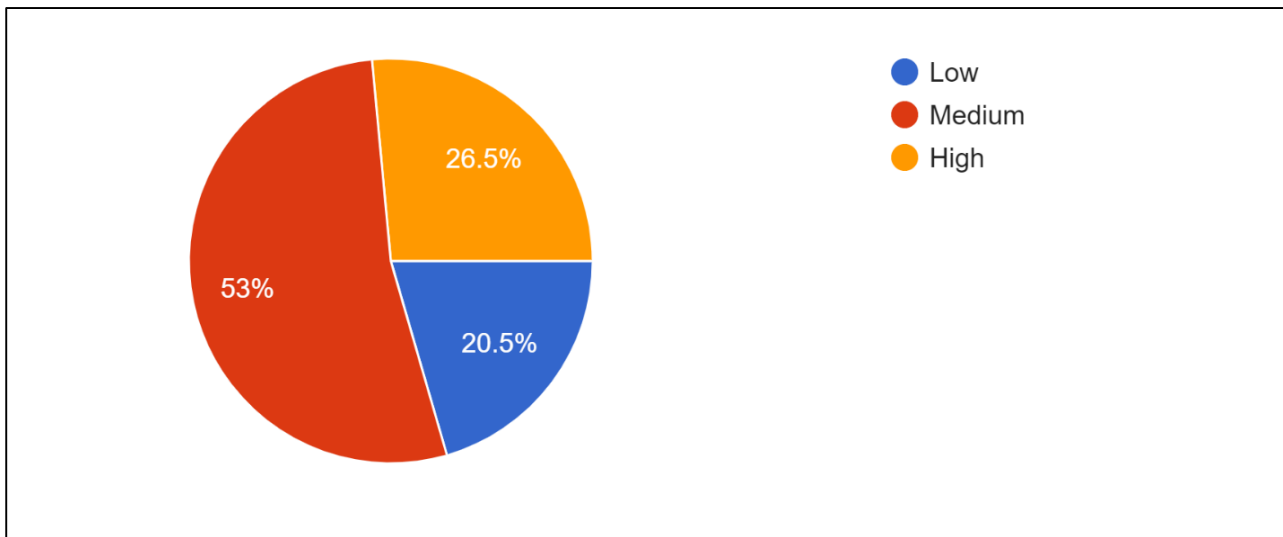
12) Level of risk

Analysis: The below table displays the level of risk students take while investing in the derivatives market

Table No. 12

Row Labels	Percentage	Count of What is the level of risk?
High	26%	31
Low	21%	24
Medium	53%	62
Grand Total		117

Figure No. 12

**Interpretation:**

From the above table no. 12 and figure no. 12, we can interpret that the 53% of students believe that there is a medium risk while trading in derivatives and 26% believe that there is a high degree of risk while dealing in the derivatives market. There are various risks associated with derivatives include counterparty risk, liquidity risk, credit risk, market risk, and legal risk. In addition to these risks, derivatives can also be subject to regulatory risk, exchange rate risk, and operational risk. It is important for investors to understand the risks associated with derivatives before entering into any transactions.

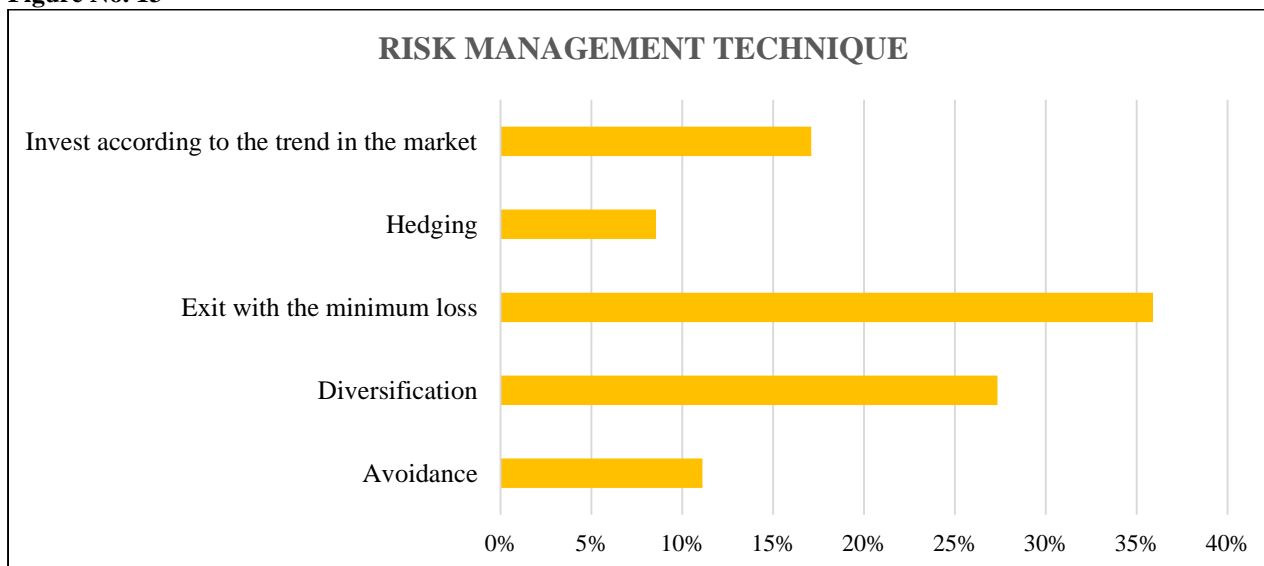
13) Risk management

Analysis: The below table shows the strategy followed by the students to control risk in the derivatives market

Table No. 13

Row Labels	Percentage	Count of What approach is taken to manage the risk?
Avoidance	11%	13
Diversification	27%	32
Exit with the minimum loss	36%	42
Hedging	9%	10
Invest according to the trend in the market	17%	20
Grand Total		117

Figure No. 13

**Interpretation:**

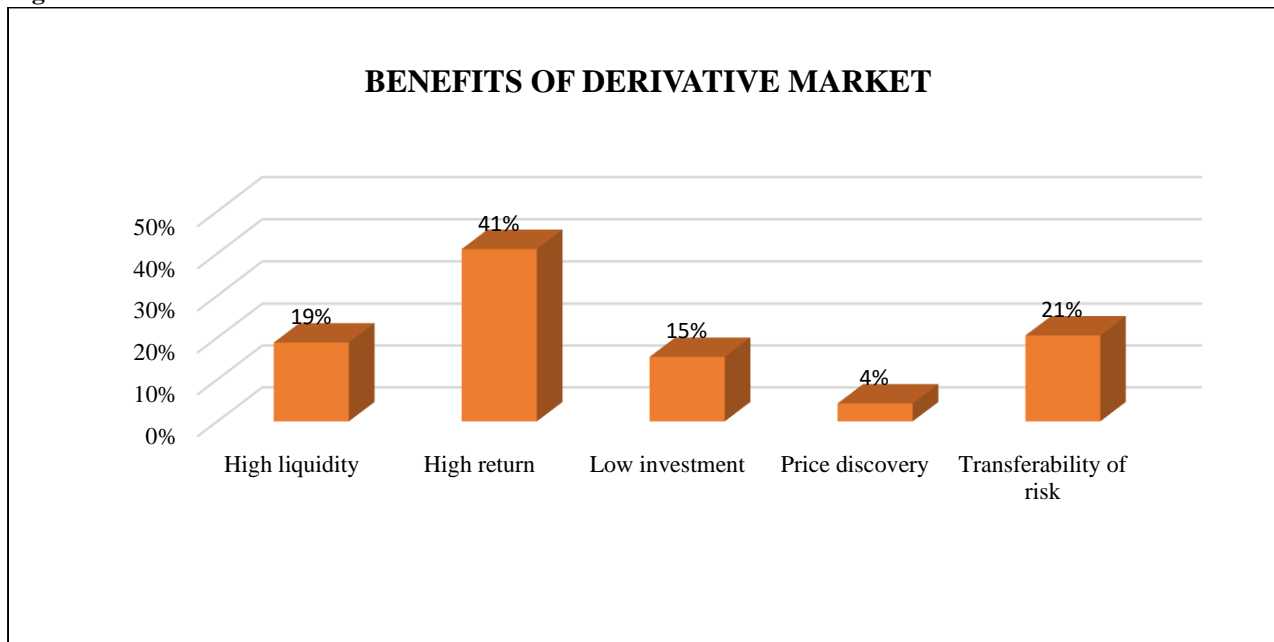
From the above table no. 13 and figure no. 13, we can interpret that the primary technique opted by investor is exit with minimum loss and diversification. 36% of respondents attempt to leave the derivatives market with the smallest possible loss. This helps to ensure that losses are minimized, as the order will be executed when the security reaches the predetermined price. The best way to exit a derivative trading position with minimum loss is to set a stop-loss order. Diversification is also a great way to mitigate risk when trading derivatives. By diversifying your portfolio, you can spread your investments across different markets, asset classes, and trading strategies. This helps reduce the overall risk associated with derivatives trading, as it reduces the potential for significant losses due to market fluctuations.

14) Advantages of derivatives market

Analysis: The below table displays the benefits offered by the derivative markets

Table No. 14

Row Labels	Percentage	Count of What benefits do derivative markets offer?
High liquidity	19%	22
High return	41%	48
Low investment	15%	18
Price discovery	4%	5
Transferability of risk	21%	24
Grand Total	100%	117

Figure No. 14**Interpretation:**

From the above table no. 14 and figure no. 14, we can interpret that a high return is the benefit enjoyed by the investors while dealing in the derivatives market. Additionally, 21% of respondents believe that risk can be transferred. The use of derivatives can allow investors to gain exposure to markets that would otherwise be difficult to access. The potential return on derivatives varies widely depending on the type of instrument, the underlying asset, and the strategies employed. To increase returns, traders may employ more aggressive strategies such as options trading, futures arbitrage, and spread betting. It is important to note that such strategies carry more risk.

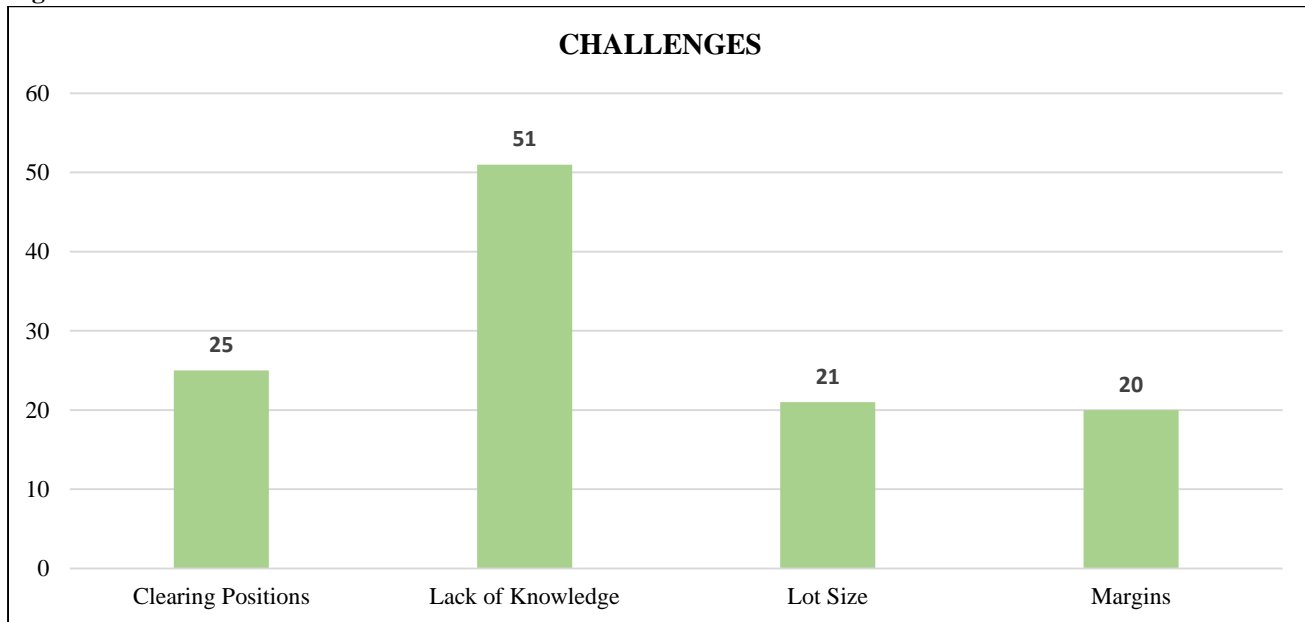
15) Challenges of derivatives market

Analysis: The below table displays the obstacles encountered by the students who are investing in derivatives

Table No. 15

Row Labels	Count of What are the difficulties encountered by you while investing in Derivatives?
Clearing Positions	25
Lack of Knowledge	51
Lot Size	21
Margins	20
Grand Total	117

Figure No. 15

**Interpretation:**

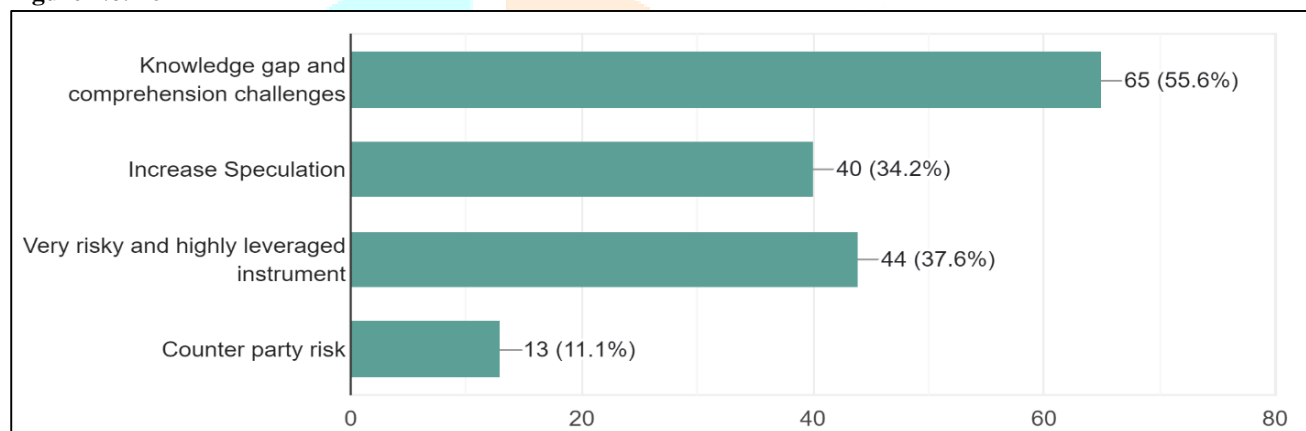
From the above table no. 15 and figure no. 15, we can interpret that lack of knowledge among investors is a crucial disadvantage while dealing in derivatives. It is important to understand how to use leverage properly and to never risk more than you can afford to lose. Practice IN trading derivatives on a demo account, allows you to trade with virtual money in a simulated trading environment with this you can gain the necessary knowledge and understanding of the derivative market.

16) Reasons of not investing in derivative market

Analysis: The below table listed describe the reasons why certain students avoid investing in the derivative market

Table No. 16

Row Labels	No. of Respondents
Counter party risk	6
Increase Speculation	22
Increase Speculation, Counter party risk	2
Increase Speculation, very risky and highly leveraged instrument	1
Knowledge gap and comprehension challenges	32
Knowledge gap and comprehension challenges, Counter party risk	1
Knowledge gap and comprehension challenges, Increase Speculation	8
Knowledge gap and comprehension challenges, Increase Speculation, Counter party risk	2
Knowledge gap and comprehension challenges, Increase Speculation, very risky and highly leveraged instrument	4
Knowledge gap and comprehension challenges, Increase Speculation, very risky and highly leveraged instrument, Counter party risk	1
Knowledge gap and comprehension challenges, very risky and highly leveraged instrument	16
Knowledge gap and comprehension challenges, very risky and highly leveraged instrument, Counter party risk	1
Very risky and highly leveraged instrument	21
Grand Total	117

Figure No. 16**Interpretation:**

From the above table no. 16 and figure no. 16, we can interpret that knowledge gap and comprehension challenges are the reasons why certain students avoid investing in the derivative market with a count of 65 respondents.

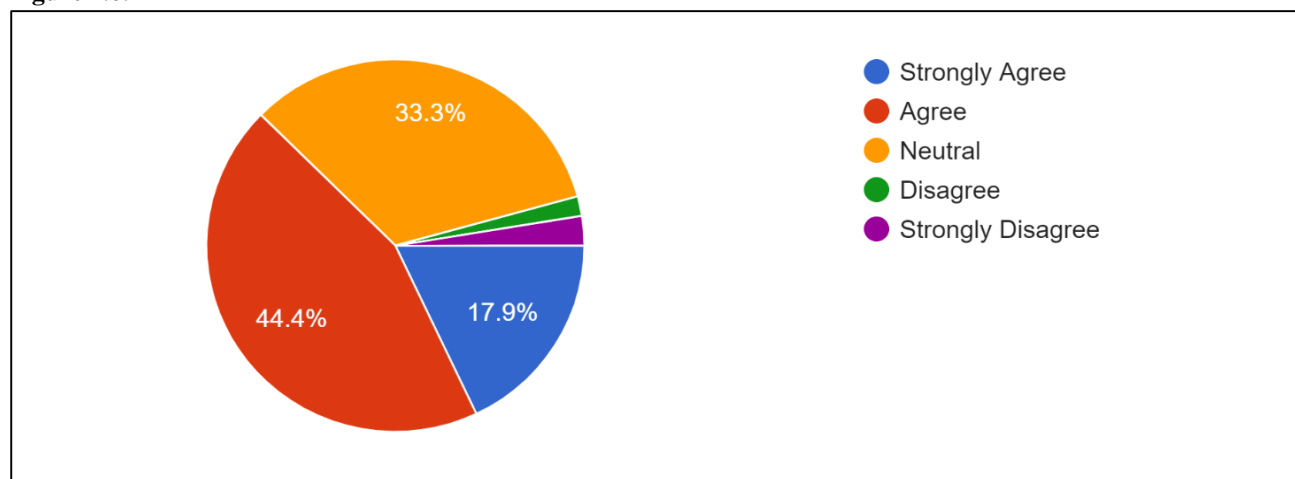
17) Performance of derivatives market

Analysis: The below table displays the performance of derivatives market in today's era

Table No. 17

Row Labels	Percentage	Count of Do you feel that the derivatives market is performing well right now?
Agree	44%	52
Disagree	2%	2
Neutral	33%	39
Strongly Agree	18%	21
Strongly Disagree	3%	3
Grand Total	100%	117

Figure No. 17

**Interpretation:**

From the above table no. 17 and figure no. 17, we can interpret that 44% of respondents agree that derivative market is performing well. The performance of the derivative market is largely dependent on the underlying asset or market it is linked to, as well as the current market conditions. As such, it is important to keep a close watch on both to ensure that the derivatives are being used effectively and profitably. But 33% of respondents are neutral towards the derivative performance.

CHAPTER 5: FINDINGS AND SUGGESTIONS



Findings and suggestions

Findings

❖ **From the total respondents majorly, males are more interested in derivative trading.**

From our study we can say, as compared to female, males are more interested in investment in derivatives.

❖ **The age group category 25 to 30** has major participation in the derivative market.

❖ From the study we determined that **majorly the undergraduates** are interested in derivative trading.

❖ Study determines that the students are not investing regularly as the majority of sample opted for **occasionally investing** in derivative market.

❖ Major participants showed their interest in the future derivative trading and **currency futures**. This shows that major students are interested in future derivatives. **Future derivative** contracts are regulated by SEBI and take place over a regulated stock exchange. In a future contract two or more parties form an agreement to exchange an agreed quantity of an underlying asset on a specific future date at agreed upon price.

❖ In this study, students' perception regarding the risk involved in derivative is very high, and also states that students are risk takers. This perception of the students also states that the very well known quote "**higher the risk higher the return**". Out of total count 117, 62 respondents presume that level of risk associated with the derivatives trading is medium sized.

❖ The study states that derivative is an instrument for diversification of the portfolio as well as it is also useful in **hedging the risk** by taking appropriate position in the derivative market. The pros of the derivative market are providing higher returns as compared to other financial instruments followed by considered as tool for transferring the risk of price fluctuations and derivative market also having higher liquidity.

❖ Investment made by the **43% investors in the derivative market is less than 5% of their savings** and only **2% investors invest more than 20%** of their savings in the derivative trading.

❖ The study says that mostly while doing investment in the derivative market, investors use different techniques for taking the investment decision.

While doing investment technique and tools used by the investors are:

Fundamental analysis – It focuses on the performance of the selected scrips company or the asset. Under this company financial statements are analyzed and focus is on the company performance and plans.

Technical analysis- under this investor focuses on the price volatility of the scrips and the performance of the scrips by watching graphs and performing indicator such as different tools are applied say moving average to determine the point to do investment or when to exist from the market.

Expert advice – some of the investors follow the CNBC TV, INDIA TV, and other sources for gathering information and get the advice from the experts.

Study says that major proportion of investor use all the tools for taking investment decision.

❖ The major reason why people are not investing into the security market is **lack of awareness** and **misconception** about the derivative market and trading.

❖ According to this study, people are not aware about the benefits and challenges related to derivative trading and one of the major reasons of not indulging in the derivative trading is counter-party risk in case of Over the Counter (OTC) derivative trading and in case of Exchange Traded derivatives (ETC) the major issue is derivative is highly leveraged instrument comprises higher risk.

❖ Major this study provides the crux that the higher proportion of the students are interested in derivative trading as they are using different technique for derivative trading and perceives that there is a medium risk but by doing trading in the derivative market, they can earn good return.

Suggestions

1. Encourage investors to use derivative trading by promoting its benefits such as the ability to hedge market risk, speculate on the direction of the market and use leverage to amplify returns.
2. Educate investors on the basics of derivative trading, such as the different types of derivatives and the risks associated with them.
3. Offer incentives for investors to get involved in derivative trading, such as reduced fees for using derivatives or discounts on derivatives-based investments.
4. Provide educational resources on derivative trading, such as tutorials, webinars, or online courses.
5. Encourage people to start small and invest in derivatives with smaller amounts until they are comfortable with the concept.
6. Highlight the potential of derivatives trading to generate higher returns than traditional investments and how it can be used as a tool to diversify the portfolio.
7. Encourage the use of automated trading systems or bots to reduce the time and effort required to manage derivative trades.
8. Promote transparency in the market by providing access to real-time pricing data and market commentary.
9. Increase liquidity in the market by providing access to more derivative contracts and creating a more open and accessible market.
10. Increase collaboration between investors, exchanges, and other market participants to enhance market efficiency and increase liquidity.
11. Encourage the use of advanced analytical tools such as artificial intelligence and machine learning to help investors make better decisions.
12. Provide access to third-party services such as independent research and financial advisors to help investors make informed decisions.
13. Create a regulatory framework that provides adequate protection for investors while still promoting innovation and the development of new derivative products.
14. Participate in financial literacy initiatives to help investors understand the fundamentals of derivative trading and how it works.



CONCLUSION

The derivatives market has a tremendous impact on a nation's economic growth. Academics, researchers, and professionals were drawn to the financial sector changes because of their potential to advance their understanding of derivatives, derivatives markets, and their ramifications. Recently, the global rise of derivatives has outpaced counterpart's expansion on a global scale.

From this study, by working on the primary data it can be inferred that futures offer higher returns than other derivative instruments and that their level of risk is moderate. The generation Z group, who are between the ages of 21 and 30, and who are more likely to be men, trade derivatives. Many people also take into consideration exiting with the least amount of loss and diversifying, which the majority of them believe will further help and will be appropriate to control the risk. The stock market will give high returns to the investors who can bear high risk. It has shown how crucial derivative trading is to Indian management students.

The study's empirical findings suggest that, compared to earlier, the market environment for management students interested in trading derivatives has changed. There have been ups and downs in the derivatives market. Over time, new and creative derivative products have developed to fulfil the varying demands of various sorts of investors. Any developed market should have liquidity and transparency as key characteristics.

In the modern world, being a student and accumulating money for future investments are quite important. According to the data gathered, students trade in derivatives for less than 5% of their total funds because they are unemployed. However, those who can save more money for investments are probably between 5% and 10% which expect rate of return above 5% from the derivatives market.

It might be claimed that investing in derivatives is something that young people are allegedly unfamiliar with. This causes additional issues with margins, lot size, and clearing positions. However, sessions and training are still offered to students today to improve their knowledge of the trading aspect, which is why the derivatives market is doing well.

REFERENCES

- K H, Akhila. (2022). "Investors perception towards derivatives with reference to future and option in palakkad district".
- Witzany, Jiri. (2017). Credit Derivatives and Counterparty Credit Risk. 10.1007/978-3-319-49800-3_5.
- Grandes, M., & Lema, D. (2020). Derivatives and economic growth: Links and evidence the impact of the financial derivatives on the real economy.
- Liyuan, W. (2019, October). Research on Accounting Issues of Derivative Financial Instruments under Network Conditions. In *IOP Conference Series: Materials Science and Engineering* (Vol. 631, No. 5, p. 052018). IOP Publishing.
- Bingham, N. H., & Kiesel, R. (2013). *Risk-neutral valuation: Pricing and hedging of financial derivatives*. Springer Science & Business Media.
- Guay, W., & Kothari, S. P. (2003). How much do firms hedge with derivatives? *Journal of financial economics*, 70(3), 423-461.
- Nguyen, H., & Faff, R. (2010). Are firms hedging or speculating? The relationship between financial derivatives and firm risk. *Applied Financial Economics*, 20(10), 827-843.
- Bartram, S. M., Brown, G. W., & Fehle, F. R. (2009). International evidence on financial derivatives usage. *Financial management*, 38(1), 185-206.
- Prevost, A. K., Rose, L. C., & Miller, G. (2000). Derivatives usage and financial risk management in large and small economies: A comparative analysis. *Journal of Business Finance & Accounting*, 27(5-6), 733-759.
- Bodnar, G. M., & Gebhardt, G. (1999). Derivatives usage in risk management by US and German non-financial firms: A comparative survey. *Journal of International Financial Management & Accounting*, 10(3), 153-187.
- Hunt, P., & Kennedy, J. (2004). *Financial derivatives in theory and practice* (Vol. 556). John Wiley and Sons.
- Chaudhry, D., Mehmood, M. S., & Mehmood, A. (2014). Determinants of corporate hedging policies and derivatives usage in risk management practices of non-financial firms. *Wulfenia Journal, ISI Indexed, Impact Factor 0.267*, 21(7), 293-310.
- Alam, A., & Afza, T. (2017). Impact of derivative usage on firm's risk and value: a comparative analysis of Pakistan and Malaysia.
- Afza, T., & Alam, A. (2016). Foreign currency derivatives and firm value. *European Online Journal of Natural and Social Sciences*, 5(1), 1-14.
- Bashir, H., Sultan, K., & Jghef, O. K. (2013). Impact of derivatives usage on firm value: evidence from non-financial firms of Pakistan. *Journal of Management Research*, 5(4), 108.
- Bodnar, G. M., Jong, A. D., & Macrae, V. (2003). The impact of institutional differences on derivatives usage: A comparative study of US and Dutch firms. *European Financial Management*, 9(3), 271-297.
- Fauver, L., & Naranjo, A. (2010). Derivative usage and firm value: The influence of agency costs and monitoring problems. *Journal of corporate finance*, 16(5), 719-735.
- Hairston, S. A., & Brooks, M. R. (2019). Derivative accounting and financial reporting quality: A review of the literature. *Advances in accounting*, 44, 81-94.
- Campbell, J. L., Mauler, L. M., & Pierce, S. R. (2019). A review of derivatives research in accounting and suggestions for future work. *Journal of Accounting Literature*.
- Zhao, T., Sun, C., Cohen, A., Stokes, J., & Veerapaneni, S. (2022). Quantum-inspired variational algorithms for partial differential equations: Application to financial derivative pricing. *arXiv preprint arXiv:2207.10838*.
- Quail, R., & Overdahl, J. A. (2002). *Financial derivatives* (Vol. 127). John Wiley & Sons.
- Lee, B., & LiPuma, E. (2004). Financial derivatives and the globalization of risk. In *Financial Derivatives and the Globalization of Risk*. Duke University Press.
- Sudhakar, V. J., Arunsankar, N., & Karpagam, T. (2012). A new approach for finding an optimal solution for transportation problems. *European journal of scientific research*, 68(2), 254-257.
- https://www.sebi.gov.in/sebi_data/faqfiles/jan-2017/1485846339758.pdf
- <https://www1.nseindia.com/products/content/derivatives/equities/fo.htm>
- <https://handbook.unimelb.edu.au/2023/subjects/fnce30007>
- https://www.researchgate.net/figure/Students-perception-of-derivative_fig3_324028211
- <https://www.indiaonline.com/knowledge-center/online-share-trading/what-is-derivative-trading#:~:text=Derivative%20contracts%20are%20short%2Dterm,financial%20contracts%20in%20the%20market.>
- <https://corporatfinanceinstitute.com/resources/derivatives/exchange-traded-derivatives/#:~:text=Exchange%2Dtraded%20derivatives%20are%20futures,increase%20liquidity%20and%20market%20depth.>
- <https://www.investopedia.com/terms/t/trade.asp#:~:text=In%20financial%20markets%2C%20trade%20refers,securities%2C%20commodities%2C%20or%20derivatives.>
- <https://www.nirmalbang.com/knowledge-center/derivatives-in-india.html>