Preface to the Second Edition

In the 19 years since the first edition of this book appeared, much has changed. There was a time when the Western expert consensus was that financial markets should be largely left alone and that derivatives should be regulated as lightly as possible. That has changed after the global financial crisis of 2008. There is now greater caution about the effects of derivatives on the economy.

Derivatives were relatively insignificant in Indian financial markets in 1998 and were just beginning to recover from decades of severe restrictions, imposed at a time when the government pursued a 'socialistic pattern of society'. Today, India has active derivative markets not only in commodities but also in various financial instruments (so much so that there have been criticisms that equity derivatives trading in India has reached excessive proportions vis-à-vis the cash markets). Meanwhile, the Indian economy too has grown faster than the global average. In short, derivatives are more significant now in Indian markets and Indian markets are more significant in global terms.

Amidst all the changes, one fact remains unchanged: derivatives are an important feature of a modern market economy and are here to stay. They matter not only to developed markets but to emerging markets as well. Therefore, a basic understanding of how these markets work is essential for those who participate in these markets, those who aspire to work in them and those who comment on them, but also for those who seek to study the economy. Students of commerce, business and finance, bankers and accountants, analysts and financial journalists, non-financial economists and managers – all need a basic understanding of the essentials of derivatives markets. Yet, most books on derivatives are geared to specialists and they often take a mathematical approach.

This book aims to enable the general reader – whether student, practitioner, banker, commentator or investor – to gain a basic understanding of the derivatives markets and how they operate. It does not presume any prior knowledge of derivatives. The response to the first edition (which went into nine reprints till 2010) indicated that it succeeded in good measure in attaining that objective. It is the authors' sincere hope that this edition will do the same.

In this edition, the basic style and approach of the first edition – simplicity in explanation, lucidity in exposition of concepts, avoidance of calculus and

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advanced mathematics,and instead the use of narrative with specific numerical examples to illustrate concepts – have been retained. However, the content has been comprehensively updated and improved. Recent developments in the subject have been incorporated. Many new topics have been added.

The first edition devoted considerable space to issues of relevance primarily to economists and policymakers. This book has reduced emphasis on those issues. The interested reader could however turn to *The Economics of Derivatives* (Cambridge University Press, 2015, by Somanathan and Nageswaran) for a comprehensive treatment of those aspects. Certain issues that are now of merely historical interest (such as the chapter on the *badla* system) have been omitted. This book includes topics that were non-existent or less relevant then (for example, exchange traded funds) and also has a more detailed treatment of several issues (options strategies for instance).

Derivatives are important and useful tools. The authors hope this book will help readers gain a good understanding of these tools as well as the benefits and the risks that they bring and will help users handle derivatives wisely and carefully.

Responsibility for any errors, omissions or inadequacies rests entirely with the authors. Any views expressed in this book are the personal views of the authors and should not be construed as representing the views of the organisations for which the authors are currently, or were previously, working.

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