

Agricultural and Consumer Economics 528

Research in Futures and Options Markets

Spring 2017

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COURSE SYLLABUS

Course Meetings

The class meets Tuesday and Thursday from 11:00 to 12:20 in 316S Mumford Hall.

Course Description

The course is a research seminar on topics and issues in futures and options markets. We will explore traditional studies and topics associated with these markets, including hedging, price discovery and efficiency, and the existence of convenience yield. However, we also will focus on current issues that may help students develop their research agenda. Some recent areas for investigation include: What are the effects of large hedge fund traders on market prices and volatility? Do substantive behavioral biases in trader activities and markets exist? If so, what are their effects on trader returns, and market prices and volatility? What have been the effects of moving to electronic marketing in agricultural futures markets? Will liquidity increase and make markets more efficient and less risky? How can we measure effective transaction costs in futures markets? What is the effect of an order imbalance on prices and transaction costs? Is there a commonality in liquidity costs across markets? What are the impacts of new markets and contracts that are being introduced in the markets? For example, how do over-the-counter contracts affect risk management opportunities and the viability of established contracts and institutions? How well can energy contracts be used to hedge farmer fertilizer and fuel expenditures? What is the most effective way to hedge milk with the new contracts? Do event contracts have economic value to producers and market channel participants? What are the factors affecting market volatility? Can future market volatility be forecasted by options markets? Can market volatility be forecasted effectively by time series and econometric procedures? How can decision makers use more effective forecasts of subsequent volatility? Are futures contracts attractive investment instruments? How do futures contracts fit into optimal portfolios?

As a seminar in research topics, student participation in discussions and in development of their own research papers is expected and vital for the success of the course.

Course Objectives

To become knowledgeable about important research topics and procedures used to investigate research problems in futures and options markets. To use that knowledge of the issues and procedures to develop and report in an effective manner on your own research efforts. Emphasis will be on research related to agricultural commodities, but other markets are considered.

Course Evaluation

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| 1. Term paper | 50% | The term paper is expected to be an empirical study. Specific research problems investigated can be developed through the readings, and/or through discussion with the professors. Professors will provide advice and feedback to assist students in developing and completing their term projects. Scheduling guidelines for paper are presented below. |
| 2. Discussions | 25% | Students will be assigned readings and are expected to lead class discussion of the reading. Students leading specific discussion will also prepare a written outline and review of the reading. Student presentations should focus on: the relevant problems under investigation; the motivation for the analysis; the theory, procedures, and data used; and the findings and their implications. <u>Critical assessment</u> of the work and <u>directions for future research</u> should be identified and discussed. Specifically, identify unresolved questions or concerns which can be discussed. Students are encouraged to organize their presentations using power point slides and/or outlines which can be disseminated to the class. Presentations should not exceed 5 to 10 minutes. (At the 10 minute mark, discussion will begin.) |
| 3. Participation | 25% | Students are expected to contribute orally to the discussion of assigned readings and presentations. To facilitate this, each student will submit a question or two from the readings for each class period. The class will discuss these questions. |

Term Paper Schedule

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| February 16 | Proposals for term papers are due. A written proposal including selected references is submitted along with a brief in-class oral presentation. At this stage, students should focus on identifying the problem and suggesting in general terms what theory, procedures and data might be used. |
| April 3-7 | Preliminary reports are due this week. These will be presented orally with a written outline submitted. Students should briefly revisit the motivation for the analysis, but focus on a discussion of the data, any preliminary results and problems they are |

encountering with the work. In-class discussion is expected.

May 11

Final reports are due at 7pm, Thursday, May 11, which is the beginning of the final exam period for the course. During the final exam period, each student will present an oral seminar on their project. The class presentation should focus on the findings and how they contribute to our understanding of the research questions, and implications for future research.