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Welcome to *The Journal of Derivatives*.

Twenty years ago, Black and Scholes, and Robert Merton, published their seminal work on the theory of option valuation. Nearly simultaneously, the International Monetary Market began trading financial futures, and the Chicago Board Options Exchange opened an active market in standardized option contracts. Since then we have witnessed enormous growth in the academic area of derivatives research, and in the practical area of derivatives trading. Many academicians and practitioners would agree that this is the most interesting and innovative area in finance today.

It is also probably the area in which there has been the most fruitful interaction between financial theory and practice. Theoretical valuation models developed at universities are eagerly sought, and applied successfully, in the real world, while the ongoing creation of instruments with increasingly complex contingencies generates a continuing flow of new research topics for academics. This process has created links between the academic and practitioner communities, and common interests in research, that are unmatched elsewhere in finance.

The goal of *The Journal of Derivatives* is to enhance these links by providing a forum for sharing research results and ideas of interest to both academics and practitioners. What began as "option pricing" has developed into the much broader field of "derivatives research," and the scope of the journal will be equally broad. Articles may cover any aspect of the theory or practice of trading in derivative instruments, the analysis of securities with derivative features, or the application of derivatives concepts to other areas such as banking, insurance, corporate finance, and market regulation.

The primary consideration will be that articles should be of interest to a broad audience of sophisticated practitioners and scholars in the derivatives field. And while derivatives research is inherently mathematical, we will strive for a style that is as clear and accessible as possible, while maintaining strict standards for the correctness of theoretical reasoning and empirical results.

Because our purpose is both to present new research results and to share ideas, *The Journal of Derivatives* will publish some articles that are essentially informative. One regular feature will be the **Innovations** section, which will report on significant new developments, such as new instruments, new markets, new trading arrangements — in short, on innovations. We will also occasionally publish expository articles that are expected to be of value to a broad range of readers. For example, this issue contains the first in a series of pieces by Gary Gastineau explaining the nature and uses of the most prevalent types of special-purpose, or "exotic," derivatives.

An indication of the need for a specialized journal like this is the fact that in just a few months since the decision was made to go ahead with it, we have received a great many expressions of interest, and dozens of manuscript submissions. *The Journal of Derivatives* hopes to fill an important need, and we welcome your interest, your comments and suggestions, and your papers, to help in that endeavor.

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