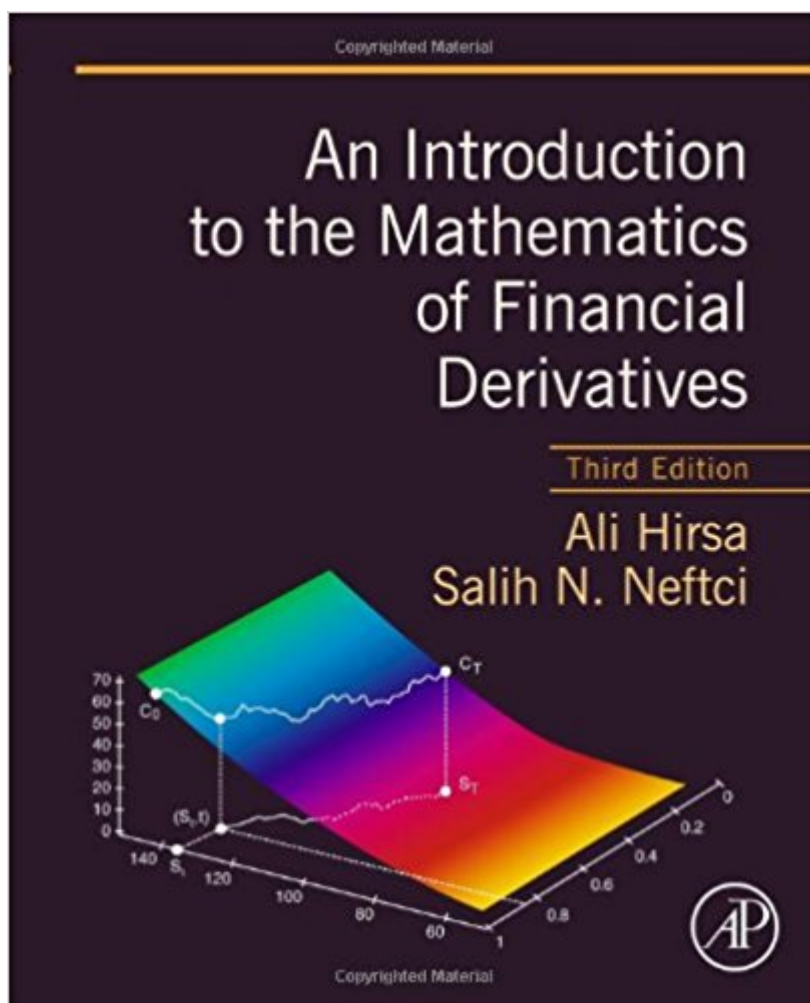


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# An Introduction To The Mathematics Of Financial Derivatives, Third Edition



## Synopsis

An Introduction to the Mathematics of Financial Derivatives is a popular, intuitive text that eases the transition between basic summaries of financial engineering to more advanced treatments using stochastic calculus. Requiring only a basic knowledge of calculus and probability, it takes readers on a tour of advanced financial engineering. This classic title has been revised by Ali Hirsa, who accentuates its well-known strengths while introducing new subjects, updating others, and bringing new continuity to the whole. Popular with readers because it emphasizes intuition and common sense, An Introduction to the Mathematics of Financial Derivatives remains the only "introductory" text that can appeal to people outside the mathematics and physics communities as it explains the hows and whys of practical finance problems. Facilitates readers' understanding of underlying mathematical and theoretical models by presenting a mixture of theory and applications with hands-on learning Presented intuitively, breaking up complex mathematics concepts into easily understood notions Encourages use of discrete chapters as complementary readings on different topics, offering flexibility in learning and teaching

## Book Information

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## Customer Reviews

"This text introduces quantitative tools used in pricing financial derivatives to those with basic knowledge of calculus and probability. It reviews basic derivative instruments, the arbitrage theorem, and deterministic calculus, and describes models and notation in pricing derivatives, tools in probability theory, martingales and martingale representations, differentiation in stochastic environments, the Wiener and Lévy processes and rare events in financial

markets" --ProtoView.com, February 2014 "Ali Hirsa has done a superb job with this third edition of the very popular Neftci's *An Introduction to the Mathematics of Financial Derivatives*. New chapters and sections have been added covering in particular credit derivatives (Chapter 23) and jump processes and the associated partial integro-differential equations. The new material on numerical methods, in particular on Fourier techniques (Chapter 22) and calibration (Chapter 25), and added examples and exercises are very welcome. Overall, this new edition offers substantially more than the previous one in all of its chapters. This is a unique sophisticated introduction to financial mathematics accessible to a wide audience. Truly remarkable!" --Jean-Pierre Fouque, University of California, Santa Barbara "The publication of this expansive and erudite text in a new edition by one of the most highly respected scholars in the field should be a welcome event for practitioners and academics alike." --Lars Tyge Nielsen, Columbia University "There are many books on mathematics, probability, and stochastic calculus, but relatively few focus entirely on the pricing and hedging of financial derivatives. I have used the second edition for finance and financial engineering classes for years, and will continue with the third edition; the book will no doubt remain a valuable reference for industry practitioners as well." --Robert L.

Kimmel, National University of Singapore "An excellent introduction to a wide range of topics in pricing financial derivatives with highly accessible mathematical treatment. Its heuristic style in explaining basic mathematical concepts relevant to financial markets greatly facilitates understanding the fundamentals of derivative pricing." --Seppo Pynnonen, University of Vaasa "What makes this introductory text unique for students or practitioners without a major in mathematics or physics is that it provides the most helpful heuristics while clearly stating how or why the concepts are useful for practical problems in finance. The timely additions on credit derivatives and PDEs provide considerable value-added in comparison to the second edition." --Mishaël Milaković, University of Bamberg

*An Introduction to the Mathematics of Financial Derivatives* is a popular, intuitive text that eases the transition between basic summaries of financial engineering to more advanced treatments that use stochastic calculus. Requiring only a passing knowledge of calculus and probability, it takes readers on a tour of advanced financial engineering. This classic title has been revised by Ali Hirsa, who accentuates its well-known strengths while introducing new subjects, updating others, and bringing new continuity to the whole. Popular with readers because it emphasizes intuition and common sense, *An Introduction to the Mathematics of Financial Derivatives* remains the only "introductory" text that can appeal to people outside the

mathematics and physics communities as it explains the hows and whys of practical finance problems.

There is no need to add to the typo-related comments... Instead, I would like to address the fact that mathematically speaking the book isn't that rigorous. For instance certain "proofs" rely on THE result to prove the claim (i.e. the result). As an example, equation 9.58 and the statement below eq 9.69, its a lengthy derivation that ends where it had begun. Otherwise it is an excellent effort to explain as easy as possible the topics covered by the book (at least the 2nd edition the 3rd should not be bought.). Of course to follow the book's "easy" explanation you need to be aware and spot the typos which will require a fair knowledge of deterministic calculus. The errata is far from complete.

I was hoping that this book, written by a high level finance quant- Ali Hirs, would have added many more details and examples to the existing topics already in the 2nd edition of the book. But the third edition just adds some modern topics, but adds only a little more material to a few existing chapters in the 2nd edition to make the book slightly more useful as an INTRODUCTION to the Mathematics of Financial Derivatives. Also this new edition modernizes some notation in one paragraph , however the editors do a half donkey job... because, in a subsequent paragraph the old notation was not replaced... making the 3rd edition less readable than the second edition. If the author/editor doesn't provide a errata sheet then you have to stick with the 2nd edition written just by the original author, Salih N. Neftci. But since there is some new useful information in the 3rd and I have the 2nd edition without the new typos, that the 3rd edition introduces on the old material, I found this edition useful to have.

It's sad because I actually think this could be a good textbook, but the amount of errors in it make it almost unreadable. the errata is 40 pages and is missing a very large amount of errors. You can't trust the book to be correct, and with an introductory book to a very technical field it makes it borderline unreadable. If you are reading this book for the society of actuaries' quantitative finance exam you're out of luck. They should really take it off of the syllabus. If you're trying to learn stochastic calculus for financial analysis I have to imagine there are better texts out there. It is quite rare to go more than 2 pages without a blatant error.

As a Master of Science, I have read many textbooks on math and stats over the years. This is no

doubt THE WORST ONE. Even with the errata, there are still TONS OF ERRORS. I don't doubt the author is a qualified mathematician, but he may not be very good at explaining stuff. I feel that he didn't explain certain concepts clearly enough, while for some simple concepts, he made it over complicated. By the way, I'm not the only person who feel this way. A few of my friends are using this book as well and they all agree with me. YMMV.

This book has many errors persisting from the second edition. Some of the exercises are incorrect as written, and emails to the author have produced no response. A solutions manual should be in preparation, and a list of comprehensive errata should appear either on Elsevier's website or the author's website.

How I wish this book be banned from reading or taken off shelves until the author has corrected all the typos and confusing proofs. It could have been an excellent book on the subject for students starting into this field of study.

One the best text books for beginners. It explains abstract mathematical theories with easy to understand language and examples. For example, one does not need to have advanced math background to understand chapter 14 which covers Equivalent Martingale Measures (the Girsanov Theorem) and chapter 24 which covers stopping time for American options. Chapter 24 is especially interesting in the sense that it uses simple theory and example to layout steps one can use to determine the optimal (best) time to exercise American options. The new chapters 22 (Pricing Derivatives via Fourier Transform Technique), 23 (Credit Spread and Credit Derivatives) and 25 (Overviews of Calibration and Estimation Techniques) are great addition to the previous (second) edition. Chapters 22 and 25 introduce more advanced methods and models for pricing and predicting future prices for derivative products. Chapter 23 gives an in-depth introduction to credit derivative.

Full of typos.. Even equation numbers referred to in the text is not correct at many places, leading me to guess the intent. The book is good, but these typos and errors make it harder to read. An explicit errata for this book is awaited.

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