(Derivatives)
A derivative is a security with a price that is dependent upon or derived from one or more underlying assets. The derivative itself is a contract between two or more parties based upon the asset or assets. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes.

It is up four types: Forward Contacts, Futures Contacts, Option Contacts and Swaps.

(Forward Contacts): -
Forward contracts are the simplest form of derivatives that are available today. Also, they are the oldest form of derivatives. A forward contract is nothing but an agreement to sell something at a future date. The price at which this transaction will take place is decided in the present.
However, a forward contract takes place between two counter-parties. This means that the exchange is not an intermediary to these transactions. Hence, there is an increase chance of counter-party credit risk. Also, before the internet age, finding an interested counter-party was a difficult proposition.

Another point that needs to be noticed is that if these contracts have to be reversed before their expiration, the terms may not be favourable since each party has one and only option i.e. to deal with the other party. The details of the forward contracts are privileged information for both the parties involved and they do not have any compulsion to release this information in the public domain.

(Futures Contacts): -
Future contracts is same like forward contracts, In forward contacts, we able to know the actual price in future period of time. But in future contracts, we are doing buying or selling in current price.

(Option): -
Option is an important product in derivatives. After buying this product, we will get obligation in that product, not 100% right of it. Generally using this product for hedging purpose and making different safe strategy in the market. And option can be used to get guaranteed amount of money in market most of the time.

(Swap): -
Swap is a kind of derivatives, which generally happens between private parties. It is an agreement between two parties, to exchanges their cash flow for certain period of time. These series of cash flows is determined by a random or uncertain variable, such as an interest rate, foreign exchange rate, equity price or commodity price.

(Commodity): -
Commodity is a raw materials or an agricultural product, but using these we are making different kind of manufactured product. Example: Gold, Silver, Copper, Natural Gas, etc. If we are trading these products in any market, then this market is called as commodity market/ commodity exchanges.
Two commodity exchanges are available in India (MCX, NCDEX.).

Difference between Commodity and Financial Derivatives: -

- The basic difference is the nature of the underlying instrument.
- In Commodity futures, the underlying assets are Gold, Silver, Aluminium, Copper, Natural Gas, Crude oil, etc.
- In Financial derivatives, the underlying assets are Bonds, stocks, Stock-Index, foreign Exchanges, Treasuries, USD-INR deposits, etc.