

# What Are Derivatives?

## 1 Definition

Derivatives are financial contracts or instruments that derive their value from underlying assets, and they come in various forms like futures, options, swaps, and forwards.

## 5 Real-World Applications

They're used for hedging by commodity producers, speculation by hedge funds, interest rate management by corporations, and options trading by individual investors.

## 2 Versatility in Usage

Derivatives serve multiple purposes, from hedging against price fluctuations and speculating on market movements to portfolio diversification and risk management.

## 3 Risks and Rewards

While derivatives offer opportunities for profit, they also come with risks, such as price volatility, leverage, counterparty risk, and regulatory and legal challenges.

## 4 Key Players

The derivatives market involves a diverse group of participants, including individual investors, institutional investors, market makers, and regulators.