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THE world of derivatives is riddled with jargon. Here are translations of the most important bits:

* A forward: a contract that commits the user to buying or selling an asset - say a Treasury bill, or gold, or dollars - at a specific price on a specific date in the future. Mostly used for private deals between two parties.

* A future: a forward contract that is traded on an exchange.

* A swap: a contract by which two parties exchange cash flows linked to a liability or asset. For example, two firms, one with a loan on a fixed interest rate over ten years and the other with a similar loan on a floating interest rate over the same period, may agree to take over each other's obligations, so that the first firm pays the floating rate and the second the fixed rate.

* An option: a contract that gives the buyer the right, but not the obligation, to sell or buy a particular asset at a particular price, on or before a specified date. Whereas forwards, futures and swaps are binding commitments, an option is a form of insurance. A buyer can be charged a hefty premium, which is lost should the option not be used ('exercised').

* An over-the-counter: a derivative that is not traded on an exchange but purchased from, say, an investment bank. These can be more flexible than exchange-traded contracts and sometimes involve more unusual risk-transfers, achieved by the bank bundling together assorted swaps, forwards and exchange-traded futures and options to meet the precise needs of the buyer.

* Leverage: more bang for your buck. The amount of money put at risk by a derivative is far bigger than the down payment made when it was traded. The extent of leverage in a derivative is not always obvious.

* Exotics: derivatives that are either complex, or are available in emerging economies. These tend to be contrasted with 'plain-vanilla' derivatives, which are typically exchange-traded, relate to developed economies, and are (relatively) uncomplicated.

Although some derivatives are complex, and pricing even the plain-vanilla ones can require a doctorate in mathematics, a few simple questions should establish the possible effects of any of them. Does the derivative involve a binding commitment to pay or receive payment? If so, in what circumstances would this commitment bite? And if the derivative confers a right, but not an obligation, in what context would it make sense to exercise that right?

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