THE OPTIONS MARKET
Though the forward contract has overcome some of the problems associated with risk especially price risk and provided the possibility of better planning of business, it is still associated with some other problems, such as the problem of double coincidence, the determination of price through bargaining which may affect the weaker party to the contract due to his urgency or information asymmetry and, more importantly, the problem of counterparty risk by defaulting to honor his obligation.

These problems have generally been addressed by the futures contract. However, the futures contracts themselves are still inadequate in some respects to meet later day business needs. In particular, there were two inadequacies that have prompted the search for further product innovation. In spite of the fact that while futures enable easy hedging by locking in the price at which one can buy or sell, it does not allow him to benefit from subsequent favorable price movements. Though one can easily reverse a futures position subsequently, the price at which reversal takes place will be at changed prices. Also there is the possibility that since there is now full exposure (no more hedge) subsequent unfavorable price movements could really hurt.

The second and more important inadequacy is the fact that futures are unfavorable for the management of contingent liabilities or contingent claims. There are liabilities or claims on a business entity that could arise, depending on an uncertain outcome. In other words, contingent claims or liabilities are business situations that involve at least two levels of uncertainty. In an increasingly turbulent world such situations have become commonplace and their management is much more important.\(^1\)

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\(^1\) See, Obiyathulla Ismath Bacha, "Derivatives Instrument And Islamic Finance: Some Thoughts for Reconsideration", p. 6.