Printed pages: 02 Sub Code: RMB FM 05

Paper Id: 270434 Roll No: [redacted]

MBA

(SEM IV) THEORY EXAMINATION 2017-18

FINANCIAL DERIVATIVES

Time: 3 Hours *Total Marks: 70*

Note: Attempt all Sections. If require any missing data; then choose suitably.

SECTION A

1. Attempt *all* questions in brief. 2 x 7 = 14

a. Define short squeeze.
b. How hedging different from arbitraging?
c. What do you mean by put option and call option?
d. Define Index futures.
e. Define MIBOR and LIBOR.
f. What is the difference between long and short forward position?
g. What is financial swap?

SECTION B

2. Attempt any *three* of the following: 7 x 3 = 21

a. Discuss the various functions and advantages of derivatives markets.
b. State features of futures contracts. What is the role of clearing corporation in trading of such contracts?
c. Briefly explain the Intrinsic value of option and Time value of option.
d. List down and explain the major recommendations given by L.C. Gupta Committee.
e. Discuss the nature of currency swaps and explain different types of currency swaps.

SECTION C

3. Attempt any *one* part of the following: 7 x 1 = 7

(a) Define derivatives. Explain different types of financial derivatives.
(b) Discuss the various measures specified by SEBI to enhance protection of rights of investors in the derivative market.

4. Attempt any *one* part of the following: 7 x 1 = 7

(a) "Options contracts are relatively more safe derivatives instruments". Explain
(b) The current stock price for ACG Ltd is Rs. 85. A European call option with an exercise price of Rs. 85 will expire in 160 days. The yield on a 160-day Treasury bill is 5.18%. The standard deviation of annual returns on ACG's stock is 44%. Compute the premium for a call option on this stock.

5. Attempt any *one* part of the following: 7 x 1 = 7

(a) Distinguish between spread, straddle and strangle option strategies and compare them with examples.

(b) Explain the black schools model with suitable example.

6. Attempt any *one* part of the following: 7 x 1 = 7

(a) Ram Mohan is an importer of textile firm in India. He expects that the price of textile to be volatile in the coming future and will increase, and thereby affecting the profitability of Ram Mohan. Current price of textile is Rs. 2,000 per 100mts. and in futures market price of textile is Rs. 2500 for 100mts. For delivery in next three months. Ram Mohan needs 20,000 meters textile in next three months. So he enters into future market. Show the profit profile of cash and spot/cash market if price of textile is Rs. 2800 per meters.

(b) Future contracts are improvised forward contracts- Do you agree? Explain.

7. Attempt any *one* part of the following: 7 x 1 = 7

(a) Explain the difference between a regular credit default swap and a binary credit default swap.

(b) Explain how stock index futures are used for adjusting the beta value of portfolio

(i) upward and

(ii) downward