Registration

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MBA
15 MNG305B

3rd Semester Regular Examination – 2016-17
FINANCIAL DERIVATIVES
BRANCH(S): MBA
Time: 3 Hours
Max Marks: 100
Q.CODE:Y758

Answer Question No.1 and 2 which are compulsory and any four from the rest.
The figures in the right hand margin indicate marks.

Q1 Answer all questions. Fill in the blanks with appropriate answer. (2 x 10)

a) The major players in derivatives market are----------------, --------------------- and Speculators.
b) Two types of option contracts that are facilitated by investors are ----------- and -----------------.
c) The difference between the Future price and Spot price is known as ---------------------.
d) Most common type of Swap contracts are -------------------and ---------------.
e) CBOT stands for --------------------------------.
f) Short hedge is and arrangement when you take ---------------position in spot market and -----------------position in derivatives market.
g) The amount required in an investor’s account to start trading in known as ---------------------margin.
h) OTC stands for --.The OTC products traded in India are -------------------------.
i) The concept that says the difference between Spot price and futures prices reduces as time to maturity approaches is known as -----------------.
j) -----------------takes a riskless position and makes instant profits.

Q2 Answer briefly the following questions: (2 x 10)

a) What do you understand by risk? What are different ways to manage them?
b) Define plain vanilla swap.
c) What are Spreads?
d) Differentiate between put and call options.
e) What is the relevance of derivatives in economy?

f) Explain differences between financial derivatives and commodity derivatives.
g) How does cost of carry model explain pricing of future contracts?
h) List all the exchanges that facilitate derivatives trading in India.
i) What do you understand by day to day settlement?
j) How are OTC traded products different from exchange traded products? Give some examples of both.

Q3 A stockbroker is holding 1000 shares of reliance industries limited. Each selling currently at Rs. 1800.A future contract expiring in one month is trading at Rs. 1808.Each contract is of 100 shares. If the stockholder can borrow or invest at 12% p.a, can he take advantage of the situation identifying arbitrage opportunity? (15)

Q4 "Derivatives are best risk management tools but not in the reach of common investor. " Discuss the statement in lieu of general features and criticism of derivatives. Explain the different types of derivatives and major players in derivatives market. (15)

Q5 How does a swap contract work? Explain Currency swap and Interest rate swap contracts along with appropriate examples and mechanism of settlement. (15)

Q6 What is binomial model of option pricing? Calculate the value of a two year call option with strike price Rs 105, stock price Rs 100, Risk free interest rate is 8%p.a and prices can move up by 10 % and down by 5%. (15)

Q7 Describe in detail Black Scholes model of option pricing, Stating its features, use, advantages and limitations. (15)
Calculate the value of call option using following details-
Stock Price –Rs.30
Excise Price-Rs 25
Risk free interest rate-12% p.a
Variance-0.16
Time period-3 months
N(.978) = .836
N(.753) =.773

Q8 Write shorts on (any two): (7.5 x 2)

a) Straddle and Strangle spread
b) Options Greeks
c) Commodity Derivatives and their trading in India