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MGT 404B

FOURTH SEMESTER REGULAR / BACK EXAMINATION, 2015/16

FINANCIAL DERIVATIVE

BRANCH : MBA

QUESTION CODE : W410

Max marks: 70

Time: 3 Hours

Answer Question No.1 which is compulsory and any five from the rest.

[The figures in the right hand margin indicate marks]

Q.1 Answer the following : **2x10**

- (a) Why should we have a derivative market ?
- (b) What are swaps and swaptions ?
- (c) What are the terms and conditions applicable to forward contracts in India ?
- (d) How does an index future work ?
- (e) What are value-weighted index and price-weighted index ?
- (f) What are European option, American option and Asian option ?
- (g) What types of option strategies are available to the players ?
- (h) Explain cross-currency swap.
- (i) What is basis risk ? Give example.
- (j) What is cost of carry ?

Q.2 (a) The stock of Apteck Ltd. (FV : Rs.10) quotes at Rs.920 today on NSF and the 3 month futures price quotes at Rs.950. The one month borrowing rate is given as 8% and the expected annual dividend yield is 15% p.a. payable before expiry. You are required to calculate the price of 3 month Apteck Futures. **10**

- (b) Current stock price is Rs.100, strike price of call option Rs.100, option premium Rs.5. Find out breakeven price for a call buyer. Find out pay off of the call option buyer, if stock price remains subdued at Rs.100. Draw profit / loss diagram of call writer and call buyer.

Q.3 On August 2nd, 2015, Mr. Ashok buys 5 contracts of December ACC futures at Rs.840. Each contract covers 50 shares. Initial margin was set at Rs.2400 per contract, while maintenance margin was fixed at Rs.2000 per contract. Daily settlement prices are as follows : **10**

- August 2 : Rs.818
- 3 : Rs.866
- 4 : Rs.830
- 5 : Rs.846

Mr. Ashok meets all margin calls, whenever, he is allowed to withdraw money from the margin Account, he withdraws half the maximum amount allowed.

Compute for each day.

- (i) Margin call
- (ii) Profit / Loss on the account.
- (iii) The balance in the account at the end of the day.

Q.4 Who are the major players in a derivative market ? Explain their respective roles. **10**

Q.5 Distinguish between :
(a) Call option and put option.
(b) Spot rate and Forward rate.

Q.6 (a) What are the factors affecting the pricing of options. **10**
(b) How can option position be liquidated ?

Q.7 Evaluate the growth of derivative market in India. **10**

Q.8 Short notes : **10**
a) Forward as hedge instrument.
b) At the money, in the money.

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