Registration no:

Total Number of Pages: 2 **MBA**
MGT 404B

4th Semester Back Examination, 2016-17
Financial Derivative
Time: 3 Hours
Max marks: 70
Q Code : Z1033

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

Q1 **Answer the following questions:** **(2 x 10)**

a) What is counter party risk?
b) How is 'price discovery' done in derivatives market?
c) Distinguish between forward contract and futures contract.
d) What is a warrant?
e) What is Hedge Ratio?
f) What is meant by financial derivatives?
g) What is speculation?
h) What is meant by long and short Butterfly spread?
i) Among forward, futures, option and swap; which is the least risky derivative instrument and why?
j) What is 'convenience yield'?

Q2 A forward contract is entered into purchase a coupon bearing bond .Current spot price of the bond is Rs.10, 00,000.date of forward contract is 1st January 2013.date of maturity is 31st December 2013.Coupon payments as on30th June 2013 (after six months) is Rs.5000/- and on 31st December 2013 (after one year) is Rs.5000/- .Risk free interest rates (continuously compounded) 10% per annum for six months and 12% per annum for one year. **(10)**
(i)Calculate Forward Price from the above data.
(ii)If the quoted forward price is higher or lower than the calculated forward price, then the arbitrageur will take the advantage .Devise the arbitrageur's strategy in each case by assuming appropriate higher and lower quoted forward price.

Q3 Discuss briefly the Cost of Carry Model for Futures pricing in case of perfect market and imperfect market. Also mention the rules of cost of carry pertaining to cash-and –carry arbitrage, reverse cash-and-carry arbitrage and no arbitrage. **(10)**

Q4 Who are the traders in the derivative market ? Describe briefly the roles of each of them in bringing about the efficient market with appropriate examples. **(10)**

Q5 Explain Black-Scholes Option Pricing Model with examples. **(10)**

Q6 What are spot and futures prices? Explain contango and backwardation. Describe how can an investor make profits from arbitrage activity? Give examples. **(10)**

Q7 What are call and put options? Illustrate with an example. Discuss the different factors which determine the movement of option prices. **(10)**

Q8 **Write short notes on any two** **(5 x 2)**

a) Hedging
b) Types of Swaps
c) Margin money