3rd Semester Regular / Back Examination 2018-19
FINANCIAL DERIVATIVES (FD)
BRANCH : MBA
Time : 3 Hours
Max Marks : 100
Q.CODE : E407
Answer Question No.1 (Part-1) which is compulsory, any EIGHT from Part-II and any TWO from Part-III.
The figures in the right hand margin indicate marks.

Part- I

Q1	**Short Answer Type Questions (Answer All-10)**	**(2 x 10)**
a)	What is meant by price discovery?	
b)	What are the roles of a clearing house? Name the clearing house.	
c)	What is displacement effect?	
d)	What is an optional term contracts?	
e)	What is cross hedge equation?	
f)	What is a basis risk?	
g)	What is convergence?	
h)	What is margin? Where is it applicable?	
i)	When is a put exercised?	
j)	What is risk neutral valuation?	

Part- II

Q2	**Focused-Short Answer Type Questions- (Answer Any Eight out of Twelve)**	**(6 x 8)**
a)	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?	
b)	What categories of investors / traders use derivatives?	
c)	Explain the concept of cost of carry through an example.	
d)	Distinguish between forwards and futures.	
e)	Discuss the uses and applications of Stock index Futures.	
f)	Discuss the principles of American Options pricing.	
g)	What are straddle and strangle? Explain through examples.	
h)	Explain the different types of spreads.	
i)	Explain the put-call parity citing an example.	
j)	Discuss the binomial model for pricing of options.	
k)	What are various assumptions under the Black-Scholes model?	
l)	Suppose the stock price is Rs100 and the risk free rate of return is 8%. Can a three month Europeancall with a strike price of Rs 94 be priced at Rs 6? Can a European Put be priced at Rs 6?	

Part-III

Long Answer Type Questions (Answer Any Two out of Four)

Q3   Write a note on financial derivatives market with reference to Indian context and the global context.   **(16)**

Q4   Discuss the basic and advanced trading strategies using stock futures?   **(16)**

Q5   What is an option? Explain with examples the modality of earning a profit or suffering a loss in option trading?   **(16)**

Q6   What is a swap? Discuss the economic motive for swaps and the mechanics of interest rate swaps   **(16)**