Unit-III

6. A Call option is available at Rs.6 per share for a period of 6-months at a strike price of Rs.45 per share. The current market price of the share is Rs. 40 and the rate of interest is 10%. The standard deviation for the share is 0.45 find out wheather the call is rightly priced or not. (Apply Black and schooles model) Also calculate the value of put option. 10

7. (a) Explain the concept of interest rate swap by an appropriate example. How the parties are benefitted by them? 6

   (b) What do you mean by risk management strategies? Explain few such strategies. 4

Unit-IV

8. Elucidate the present status of derivatives market in India. Also explain the type of derivatives being traded. 10

9. (a) Who are the different type of tradess in the derivative market? Explain each one of them. 5

   (b) What do you mean by stock index futures? Also discuss the reasons for its popularity. 5

Roll. No. ___________

MS-3124

M.B.A. (F.C.) (Semester-IV)

Examination, 2015

FINANCIAL DERIVATIVES

(FC-041)

Time Allowed : Three Hours] ***[Maximum Marks : 70***

Note : Answer five questions in all. Question No.1 is compulsory. in addition answer one question from each unit. Use of Financial/ scientific calculator is permitted.

1. Briefly answer the following questions: 3×10

   (a) How buyer/ seller of an option are different from buyer/seller of an underlying assets?

   (b) What is 'in the money' & 'out of money' exactly mean? Explain with the help of suitable examples for both call & put options.

   (c) What are the factors affecting the value of an option?

   (d) An underlying asset is currently being traded at Rs.930. Risk free rate of Setum is 6% and period is four months. Find out the future price.

(e) An investor enters into 10 short future contracts on the Dow Jones index at a future price of 10,106. Each contract is for 10x the index. The investor closes out 5 contracts when the future price is 10,201 and the remaining 5 when it is 10,074. What is the investor's net profits or loss?

(f) "Derivatives are often referred to as financial instruments of mass financial destruction." Comment.

(g) What do you mean by credit derivatives?

(h) Explain the term risk. What are sources of risk?

(i) What are the features of stock index futures?

(j) What are the criterias for derivative trading in India?

Unit-I

2. (a) How do you think that Derivative market is useful for cash market? Explain the linkage between two markets. 5

(b) The shares of PQR Ltd are being traded at Rs.50. Dividends of Rs. 0.75 per share is expected after 3 months, 6 months and 9 months from today. Find out the theoretical value of 10 months future contract if risk free rate of return is 8% p.a. 5

3. (a) Define forward contract. Explain at what time, cash flows are generated for this contract. How is settlement determined. 6

(b) Shares of XYZ Ltd. are currently selling at Rs.300 each. 3 months futures are available at Rs.312. Draw a suitable arbiteage strategy to make risk-less profit given that the deposits/ borrowing can be made at 8% p.a. 4

Unit-II

4. Mr. X creates a long straddle by buying acall and a put, both at strike price (K)=310 Rs.,at a premium of Rs.21 and Rs.42 respectively. Find out his net pay off position if the market price of the underlying on the expiration on date is between Rs.220 and Rs.400 with an increase of Rs.20. Show the diagram. Also calculate breakenew levels. 10

5. (a) Explain Covered Call Strategy. 6

(b) The shares of Intro Chemicals Ltd. are currently traded at Rs.42. An Investor buys a put option for Rs.3 at the strike price of Rs.40. Under what situation the investor would be able to make profit? When he would exercise the option? Show the profit / loss profile of the investor with the help of diagram. 4