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Subject Code:- AMBAFM0413

Roll. No:

NOIDA INSTITUTE OF ENGINEERING AND TECHNOLOGY, GREATER NOIDA

(An Autonomous Institute Affiliated to AKTU, Lucknow)

MBA

SEM: IV - THEORY EXAMINATION (2022-2023)

Subject: Financial Derivatives & Risk Management

Time: 3 Hours **Max. Marks: 100**

General Instructions:

IMP: *Verify that you have received the question paper with the correct course, code, branch etc.*

1. *This Question paper comprises of* **three Sections -A, B, & C.** *It consists of Multiple Choice Questions (MCQ's) & Subjective type questions.*

2. *Maximum marks for each question are indicated on right -hand side of each question.*

3. *Illustrate your answers with neat sketches wherever necessary.*

4. *Assume suitable data if necessary.*

5. *Preferably, write the answers in sequential order.*

6. *No sheet should be left blank. Any written material after a blank sheet will not be evaluated/checked.*

SECTION A **20**

1. Attempt all parts:-

1-a. A forward contract : (CO1) 1

(a) Can be structured by the buyer and seller

(b) Will have the same specificaton

(c) Specification are decided by the SEBI

(d) None of the above

1-b. If a trader was long in future markets. This defines: (CO1) 1

(a) He sold a future contract

(b) He bought a future contract

(c) His open positon exceed his net worth

(d) None of the above

1-c. A long or a short position in a future contract can be closed easily by initiating the following trade : (CO2) 1

(a) Reverse Trade

(b) Forward Trade

(c) Spot Trade

(d) None of the above

1-d. Break even of Put Option occurs when Spot Price is equal to : (CO2) 1

(a) Strike price + Premium

(b) Strike price - Premium

(c) Premium

(d) None of the above

1-e. Premium of Infosys call option is affected by which of the following: (CO3) 1

(a) Volatility

(b) Time to expiration

(c) Interest Rates

(d) All of the above

1-f. The date on or before which the option must be exercised is : (CO3) 1

(a) Trading Date

(b) Expiration Date

(c) Contract Initiation Date

(d) All of the above

1-g. A call option has intrinsic value only when the strike price- (CO4) 1

(a) Is below the spot price

(b) Exceeds the spot price

(c) Equal the spot price

(d) Not sure

1-h. The following are pre determined while issuing a warrant-- (CO4) 1

(a) Price of conversion

(b) Number of shares

(c) The expiration period

(d) All of the above

1-i. The main advantage of using options on futures contracts rather than the futures contracts themselves is that: (CO5) 1

(a) Interest rate risk is controlled while preserving the possibility of gains

(b) Interest rate risk is controlled, while removing the possibility of losses

(c) Interest rate risk is not controlled, but the possibility of gains is preserved.

(d) Interest rate risk is not controlled, but the possibility of gains is los

1-j. Pure risk situation are those where there is a possibility of: (CO5) 1

(a) Loss or no loss

(b) Loss

(c) Variation

(d) None of the above

2. Attempt all parts:-

2.a. Distinguish between the Spot Market and Future Market. (CO1) 2

2.b. Discuss the tailor-made contracts in derivatives. (CO2) 2

2.c. Explain zero risk. (CO3) 2

2.d. Discuss restructuring debt. (CO4) 2

2.e. Define Butterfly Strategy of Option. (CO5) 2

SECTION B **30**

3. Answer any <u>five</u> of the following:-

3-a. Explain the merits and demerits of financial derivatives. (CO1) 6

3-b. Write a note on financial assets which can be traded in derivatives .(CO1) 6

3-c. Mention the differences between put option and call option in derivatives. (CO2) 6

3-d. Write a note on commodity goods that are tradable in the derivative market. (CO2) 6

3.e. Discuss the various variants of Black-Scholes option pricing model. (CO3) 6

3.f. State various types of financial SWAPs. (CO4) 6

3.g. Give your views on the five types of risk. (CO5) 6

SECTION C **50**

4. Answer any <u>one</u> of the following:-

4-a. Describe the five global derivative exchanges. (CO1) 10

4-b. Explain the difference between Future and Forward Market in India. (CO1) 10

5. Answer any <u>one</u> of the following:-

5-a. Describe the low margin and high margin in derivatives. (CO2) 10

5-b. Unilateral transfer or sale of the contract typically not allowed in forward market. Elaborate. (CO2) 10

6. Answer any <u>one</u> of the following:-

6-a. A call option with a strike price of $55 can be bought for $4. Compute Net profit 10

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if you sell the call ,and the stock price is $52 when the call expires. (CO3)

6-b.	Explain the concept of In-the-money, At-the-money and Out of the money. (CO3)	10

7. Answer any one of the following:-

7-a.	State your views on the evolution of the SWAP market. (CO4)	10
7-b.	Explain how hedging is possible with interest rate SWAPs and currency SWAPs.(CO4)	10

8. Answer any one of the following:-

8-a.	Samy is bullish on Reliance Industries and buys ten one month Reliance futures contracts at Rs. 2,96,00. On the last Friday of the month, Reliance Industries closes at Rs. 271 per shares. Analyse and comment whether Samy is in Profit or loss situation. (CO5)	10
8-b.	Write the note on the various kinds of risk and the strategies to manage risk by various option strategies. (CO5)	10