Code: 14E00403

MBA IV Semester Supplementary Examinations November/December 2017

FINANCIAL DERIVATIVES

(For students admitted in 2014 & 2015 only)

Time: 3 hours Max. Marks: 60

All questions carry equal marks

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SECTION – A

Answer the following: (05 X 10 = 50 Marks)

1 What do you mean by financial derivatives? Explain the fundamental linkages between spot and derivatives markets.

OR

2 "Derivatives are financial weapons of mass destruction". Discuss.

3 Discuss in detail the mechanisms and operations of futures market.

OR

4 Why do futures' prices converge upon spot price during delivery months? Give reasons using diagrammatic presentation.

5 Outline the structure of options market in detail.

OR

6 How options pricing is done under binomial model? Explain with examples.

7 Explain the strategies for trading in options.

OR

8 "Foreign currency options permits investors to achieve asymmetric or linear payoffs". Comment.

9 Highlight the features of swaps. Also discuss about different types of swaps in detail.

OR

10 Compare and contrast commodity swaps with interest rate swaps.

SECTION – B

(Compulsory Question) 01 X 10 = 10 Marks

11 **Case study:**

Feelsteel is an old and established firm that makes steel furniture. It is a well known reputed brand in its line of business. It maintained its market leadership, though many competitors have entered this line of business over few decades. Every business encounters risks of different kinds and Feelsteel was no exception to it. The major problem it was facing was volatility in the prices of its main input i.e steel. The prices of steel moved up, leading to an increase in the raw material costs for the firm. It decided to purchase and stock a large quantity of steel when the price was low. But the firm was not in a position to invest heavy capital for it. Even when the raw material was bought and stocked, there is a possibility of decline in prices of steel in future period. Further the firm would find it difficult to compute with each other firms which will be able to purchase their steel at a lower price.

Questions:

(a) What is your understanding in the above case?
(b) How would Feelsteel manage the price risk?

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