Code: 14E00403

MBA IV Semester Supplementary Examinations May 2019

FINANCIAL DERIVATIVES

(For students admitted in 2014 (LC), 2015 & 2016 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 derivatives? Discuss types and role of derivatives.

OR

2 Discuss the nature of Financial and Derivative markets also explain uses and misuses of derivatives.

3 Explain the features of a future contract and also discuss under what circumstances does a minimum variance hedge portfolio lead to no hedging at all.

OR

4 "If there is no basis risk, the optional hedge ratio is always 1.0". Is this statement is true? Explain your answer.

5 What is meant by a protective put? What position in call option is equivalent to a protective put?

OR

6 A call option with a strike price of Rs. 500 costs Rs. 20. A put option with a strike price of Rs. 450 costs Rs. 30. Explain how a strangle can be created from these two options. What is the pattern of profits from the strangle?

7 Distinguish between the following:

(i) Put option and Call option.

(ii) American option and European option.

(iii) Standard option and Exotic option.

OR

8 What is the lower bound for the price of a three-moth European call option on a dividend-paying stock when the stock price is Rs. 710, the strike price is Rs. 650, the expected dividend in two months is Rs. 5 and the risk-free interest rate is 10% per annum?

9 What are different types of SWAPs? Explain in detail.

OR

10 Briefly explain the nature, growth and features of SWAPs.

SECTION – B

(Compulsory Question, 01 X 10 = 10 Marks)

11 **Case study:**

On the basis of following information find the value of a European call option.

S_0 = Rs. 92

K = Rs. 95

T = 50 days or 50/365 = 0.137 days of a year

r = 7.12%

σ = 35%

Assume that the stock does not pay

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