Code: 9E00403a

MBA & MBA (Finance) IV Semester Regular & Supplementary Examinations July 2015

FINANCIAL DERIVATIVES

(For students admitted in 2011, 2012 and 2013 only)

Time: 3 hours Max Marks: 60

Answer any FIVE questions

All questions carry equal marks

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1 Define derivative and explain the features and classification of derivatives.

2 Explain the linkages between spot and derivatives market.

3 (a) Explain various hedging strategies.
(b) Differentiate forward from futures.

4 (a) A treasurer is expecting to receive funds of Rs. 1.25 crore in the next three months which would be surplus for next three months. 3 months future contract on treasury bills expiring in 90 days is quoted at Rs. 89.50 indicating the yield of 10.50 percent likely to prevail for the 90 days bills. The treasurer is apprehensive about yield falling in the times to come. What can the treasurer do to hedge against falling yields?
(b) Describe the contract for interest rate futures and its features introduced in India.

5 What do you understand by put call parity? Provide the relationship for call and pit prices for European options.

6 Stock of Hindalco is trading at Rs. 90. A six month European call with strike price of Rs. 80 is available.
(a) What would be the minimum price of the call if risk free rate 10 percent.
(b) If the call is actually selling for Rs. 12, what minimum profit can you make? Demonstrate how would you derive such profit?

7 How does Black-Sholes model change to incorporate valuation of options on:
(a) Dividend paying stock.
(b) Indices.
(c) Currencies.

8 What is swap? Briefly explain various types of swaps.

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