

Code: 14E00403

MBA IV Semester Supplementary Examinations November 2016

FINANCIAL DERIVATIVES

(For students admitted in 2014 only)

Time: 3 hours

Max. Marks: 60

All questions carry equal marks

SECTION – A

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

- 1 Bring out the historical development of financial derivatives.
OR
- 2 Explain the misuses of financial derivatives.
- 3 "Hedging is the basic function of futures market". Discuss the statement in the light of uses of futures contract.
OR
- 4 Explain the relationship between forward and futures prices with examples.
- 5 Explain the principles of option pricing.
OR
- 6 What are the various assumptions of binomial pricing model? Also discuss one step binomial pricing model with hypothetical examples.
- 7 What do you understand by the term spread in option trading? Discuss the types of spreads with suitable diagrams.
OR
- 8 What is currency option market? What are its features? Explain with an example.
- 9 Explain the concept and nature of swaps.
OR
- 10 What is currency swap? Explain its features and also show the three step flow of currency swaps with examples.

SECTION – B

(Compulsory Question)

01 X 10 = 10 Marks

- 11 **Case study:**
Consider the following:
Stock price = Rs.50/-.
Months to expiration = 3 months.
Risk free rate of interest = 10% p.a.
Standard deviation of stock = 40%
Exercise price = Rs.55/-.
Option type = European call.
Calculate value of call option as per Black Scholes model.
