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FACULTY OF MANAGEMENT

MBA IV – Semester Examination, May / June 2017

Subject: Financial Risk Management

Course No. 4.4.3 (F)
(Elective – VI – Finance)

Time: 3 Hours **Max. Marks: 80**

Note: Answer all the questions.

PART – A (10x2 = 20 Marks)
[Short Answer Type]

1 Write short notes on the following.

a) Sources for Risk

b) Risk Management Process

c) CaR

d) Risk Avoidance

e) Capital Adequacy

f) Types of derivatives

g) Marking to the market

h) Interest rate swaps

i) Distinguish between American and European type of options.

j) Assumptions of Binomial option pricing model.

PART – B (5x12 = 60 Marks)
[Essay Answer Type]

2 a) Discuss the identification and evaluation of risk in corporate entities.

OR

b) Explain the types of risks.

3 a) Discuss the significance of ALM practices in Banking Sector.

OR

b) The VAR on a portfolio using a one day horizon is Rs. 100 million, calculate the weekly, monthly, semi annual and annual VAR. Assume 250 days and 50 weeks per year.

4 a) Discuss the significance of futures contracts in the process of risk management.

OR

b) ABC Ltd., is trading at Rs. 900, calculate its I year futures price if dividend paid is Rs. 40 at the end of half year and year. If the risk free rate with continuous compounding is 8% per annum.

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5 a) Discuss the various types of swaps and their features.

OR

b) Suppose that two companies, A and B, both wish to borrow $ 10 million for 5 years and have been offered the rates as shown below: Discuss the design of the swap, if both the parties want to share the benefit equally.

Cost of Funds to Company A and B

	Fixed rate Bonds	Floating rate Loans
Company A	10.00% p.a.	6 M Libor + 0.30%
Company B	11.20% p.a.	6 M Libor + 1.00%
Differential	120 bps	70 bps

6 a) Stock ABC currently trades for Rs. 110. A call option on ABC stock has a strike price of Rs. 105 and expires in three months. The current risk-free rate is 11%, and ABC stock has a standard deviation of 0.25. According to the Black-Scholes OPM, what should be the call option premium for this option?

OR

b) (i) Intrinsic value of option
(ii) Strike price Vs. Market price
(iii) Put option and Call option

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