Code No. 1013

FACULTY OF MANAGEMENT

M.B.A. III – Semester (CBCS) Examination, January 2019

Subject: Financial Risk Management

Paper – MB – 304 – I
Discipline Specific
(Elective – I – Finance)

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

PART – A (5x4 = 20 Marks)
[Short Answer Type]

Note: Answer all the questions in not more than one page each.

1 Scope of risk

2 Methods of interest rate risk Management

3 Players in derivatives markets

4 Value at risk

5 Distinguish between call and put options

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

Note: Answer all the questions by using internal choice in not exceeding four pages each.

6 a) Discuss the possible risk events and risk indicators.

OR

b) Explain the risk reporting process in a corporate entity.

7 a) Discuss the non-insurance methods of risk management.

OR

b) Explain the significance of ALM practices in Banking Sector.

8 a) Explain the salient features of forward and futures contracts. What are the differences between them.

OR

b) A forward contract on 200 shares, currently trading at Rs. 112 per share, is due in 45 days. If the annual risk-free rate of interest is 9%, calculate the value of the contract price.
How would the value be changed if a dividend of Rs.22 per share is expected to be paid in 25 days before the due date.

9 a) Discuss the organization and valuation of interest rate swaps.

OR

b) What is currency swap? Describe the methodology for valuation of currency swaps.

10 a) The spot price of an equity share is Rs.40 with a volatility of 25% in its price over the 3 month period of the call option on it. The exercise price of the call option is Rs.44. the risk free rate is 12% per annum. You are required to give the diagrammatic presentation of two step binomial process over 6 months to expiration.
Find the probability of increase and decrease in price at two levels after 3 months, 6 months and find the price of the call option.

OR

b) From the following data, calculate the values of call and put options using B-S model.

Current price of a share	Rs. 486
Exercise price	Rs. 500
Time to expiration	65 days
Standard deviation	0.54
Continuously compounded rate of interest	9% p.a.
Dividend expected	Rs.18 and Rs.24 after 20 days and 36 days respectively.

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