PVP21

Code No: **21BA4T6FA**

II MBA - II Semester – Regular / Supplementary Examinations MAY 2024

FINANCIAL DERIVATIVES

Duration: 3 Hours Max. Marks: 70

Note: 1. This question paper contains three Parts-A, Part-B and Part-C.
2. Part-A contains 8 short answer questions. Answer any **Five** Questions. Each Question carries 2 Marks.
3. Part-B contains 5 essay questions with an internal choice from each unit. Each Question carries 10 marks.
4. Part-C contains one Case Study for 10 Marks.
5. All parts of Question paper must be answered in one place

BL – Blooms Level CO – Course Outcome

PART - A

		BL	CO
1. a)	Define Derivative. Discuss the characteristics of derivatives.	L1	CO1
b)	List the traders in derivative market.	L1	CO1
c)	Illustrate Forward Contracts.	L1	CO2
d)	Write a short note on Margin in exchange traded derivatives.	L1	CO2
e)	What is cross hedging?	L1	CO4
f)	Differentiate a strangle and a straddle?	L2	CO3
g)	Briefly explain the types of options.	L3	CO3
h)	What are different types of swaps?	L1	CO5

PART – B

			BL	CO	Max. Marks
		UNIT – I			
2.	a)	Write about derivatives. How spot and derivative market are interlinked?	L2	CO1	5 M
	b)	Explain the different types of derivatives.	L2	CO1	5 M
		OR			
3.	a)	Explain Regulatory framework of Derivatives market in India.	L2	CO1	5 M
	b)	Argue for and against the criticism on misuse of derivative instruments.	L2	CO1	5 M
		UNIT – II			
4.	a)	Compare and contrast the Forwards and Futures contracts.	L3	CO2	5 M
	b)	A stock has a spot price of \$100. The riskless interest rate is 7% per year (compounded annually), and the expected dividend on the stock is \$3, to be received a year from now. What should be the one-year futures price?	L3	CO2	5 M
		OR			
5.	a)	What do you mean by future market and how is it different from option? Discuss about interest rate futures and currency future with examples.	L3	CO2	5 M
	b)	The price of one ounce of gold for forward delivery in three months is \$435, the interest rate on a 91-day Treasury bill is 1% and the quarterly carrying cost as a percentage of the spot price is 0.2%. Calculate the spot price of an ounce of gold.	L3	CO2	5 M

UNIT-III					
6.	a)	Explain how option market works. Discuss the major hedging strategies in option market.	L3	CO3	5 M
	b)	Explain the structure of options market.	L3	CO3	5 M
OR					
7.	a)	Explain various option trading strategies.	L3	CO3	5 M
	b)	Critically examine the factors that affect stock option prices.	L2	CO3	5 M
UNIT – IV					
8.	a)	Discuss about The Binomial Model of option pricing.	L3	CO4	5 M
	b)	A stock price is currently \$50. It is known that at the end of two months it will be either \$53 or \$48. The risk-free interest rate is 10% per annum with continuous compounding. What is the value of a two- month European call option with a strike price of \$49?	L3	CO4	5 M
OR					
9.	a)	Elucidate the principles of option pricing.	L3	CO4	5 M
	b)	What is the price of a European call option on a non-dividend-paying stock when the stock price is \$52, the strike price is \$50, the risk-free interest rate is 12% per annum, the volatility is 30% per annum, and the time to maturity is three months?	L3	CO4	5 M
UNIT – V					
10.	a)	Discuss the concepts and feature of swaps. What do you mean by credit risk in swaps?	L3	CO5	5 M
	b)	Discuss different types of swaps. How do we determine the value of swaps?	L3	CO5	5 M
OR					

11.	a)	Explain the mechanism of a Currency swap, using a flow chart / diagram.	L3	CO5	5 M
	b)	Discuss the utility of Credit Default Swap and Credit linked Notes in credit risk management.	L3	CO5	5 M

PART –C

		BL	CO	Max. Marks
12.	A corn farmer in the United States is concerned about the possibility of a decrease in the price of corn during the harvest season. The farmer has a large crop of corn that will be harvested in four months, and the current price of corn is \$5 per bushel. The farmer decides to hedge against the risk of a price decrease by entering into a futures contract. The futures contract is for the delivery of 5,000 bushels of corn in four months, and the current futures price is \$5.10 per bushel. Questions: i) What is a futures contract, and how does it work? ii) How does the farmer use the futures contract to hedge against the risk of a price decrease? iii) What is the difference between a long and short position in a futures contract? iv) What happens if the price of corn decreases to \$4.50 per bushel by the time of harvest? v) What happens if the price of corn increases to \$5.50 per bushel by the time of harvest?	L3	CO5	10 M