

(Time : 2 ½ Hours)

Total Marks: 75]

- N.B.:** 1. All questions are compulsory.  
2. Figures to the right indicate M.  
3. Each question carries 15 M each.

**Q.1 (A) Match the column: (any 8)****8M**

'A' Column	'B' Column
1. Trading member	a. Quantity of underlying asset
2. High financial leverage	b. Bearish strategy
3. Contract for Differences	c. Change in time till maturity
4. Contract Size	d. Registered member of a SEBI
5. At-the-Money	e. Nifty
6. European Option	f. OTC product
7. Strips	g. Exercised on the expiration date only
8. Theta	h. Moneyness of option
9. NSE Index	i. Setting position limits based on margin
10. Risk Management	j. Function of derivatives

**Q.1 (B) State whether following statements are True or False: (any 7)****7M**

- Speculators take positions in the derivatives market with the pure intention of making profits.
- Forward contracts are standardized contracts traded on derivatives exchanges.
- The buyer of a future contract is said to be short on futures.
- The difference between the future price and spot price is referred to as basis.
- Hedging helps to minimizing risk.
- BSM model of option pricing is given by Fischer Black and Myron Scholes.
- Option class refers to all listed options of a particular type (i.e. put or call) on a particular underlying asset.
- The option has linear payoffs.
- Risk of Bull call spread is unlimited.
- The clearing house mechanism eliminates counter party risk.

TURN OVER

- Q.2 (a) What are financial derivatives and explain its characteristics? **8M**  
 (b) Explain the various types of derivatives. **7M**

OR

- Q.2 (c) Discuss the recent development in global derivatives markets. **8M**  
 (d) Explain in detail Speculators & Arbitrageurs with suitable examples. **7M**

- Q.3 (a) Explain the following terminologies: **8M**

1. Future price 2. Contract Cycle 3. Expiry Date 4. Tick Size

- (b) Miss. Sanvi is bullish about ABC Ltd. and buys ten one month ABC Ltd. **7M**  
 future contracts at Rs.396. On the last day of the month, ABC Ltd. closes  
 at Rs. 371. How much profit / loss did she make?

OR

- Q.3 (c) An investor took the position in the futures market which are as follows: **8M**

- (1) Sold futures contract on IDBI bank with a lot size of 100 shares at  
 Rs. 278 spot and at expiry it closed at Rs. 384.  
 (2) Bought a future contract on L & T with a lot size of 700 shares at Rs. 320  
 Spot and at expiry it closed at Rs. 350

Find the net profit or loss for the investor from both the positions.

- (d) Explain the concept of hedging with suitable example. **7M**

- Q.4 (a) In March 2012 Mr. Amitbhai purchased a May call option on stock of **8M**  
 Infotech Ltd. at an exercise price of Rs.1250 and May put option on  
 Biotech Ltd. at an exercise price of Rs. 620. If the prices of shares of  
 Infotech Ltd. and Biotech Ltd. in month of May 2012 are as under:

Possibilities	Infotech Ltd.	Biotech Ltd.
A	1270	610
B	1250	620
C	1230	630

What is the moneyness of options? Show cash flow computation and suggest.

- (b) Distinguish between Option contract and Future contract. **7M**

OR

- Q.4 (c) Explain the terminologies of Writer, Premium, Intrinsic Value, **8M**  
 and Time Value.

- (d) Mr. Vijay buys a put option of TCS Ltd. at Rs.100 premium with a **7M**  
 strike price of Rs.700 and at expiry it closed at Rs. 510. Lot size  
 is 1000 shares. Find out the amount of profit/loss to him and draw  
 a pay off diagram.

- Q.5 (a) Explain the margin requirements specified by derivatives exchanges. **8M**  
(b) What is clearing house & explain its functions. **7M**

OR

Q.5 Write short notes on : (any 3) **15M**

1. Elements of derivatives contracts
2. Cost of Carry
3. Gamma
4. American and European Option
5. Long Straddle