Duration: 2 ½ Hrs.

Marks: 75

NOTE: -1. All Questions are compulsory.

2. Figures to the right indicate full marks.

Q1. A. Fill in the blank. Answer any 8 out of 10 (8 Marks)

1. .... risk is a loss may occur from the failure of another party to perform according to the terms of a contract?
a) Credit b) Currency c) Market d) Liquidity

2. Financial derivatives includes?
a) Stock b) Bonds c) Future d) None of these

3. By hedging a portfolio; a bank manager
a) Reduces interest rate risk b) Increases re investment risk c) Increases exchange rate risk d) None of these

4. A long contract requires that the investor
a) Sell securities in the future b) Buy securities in the future c) Hedge in the future d) Close out his position in the future

5. Hedging by buying an option
a) Limits gain b) Limits losses c) Limits gain & losses d) Has no limit on losses

6. An option allowing the owner to sell an asset at a future date is a ....
a) Put option b) Call option c) Forward option d) Future contract

7. Composite value of traded stocks group of secondary market is classified as
a) Stock index b) Primary index c) Stock market index d) Limited liability index

8. .... is the minimum amount which must be remained in a margin account?
a) Maintenance margin b) Variation margin c) Initial margin d) None of these

9. The amount paid for an option is the
a) Strike price b) Discount c) Premium d) Yield

10. Futures contracts are more successful than interest rate forward contracts because they:
a) are less liquid b) have greater default risk c) are more liquid d) have an interest rate tied to the discount rate

Q1. B. True or false. Any 7 (7 Marks)

1. Derivative is a contract written on given underlying
2. Equity options are options on individual stocks.
3. Commodity future market in India is regulated by Forward Market Commission.
4. The difference between future and spot price is initial margin.
5. Insurance companies manage risk by risk pooling.
6. Binomial model breaks down the time to expiration into number of time intervals.
7. Option seller has no obligation but only right.
8. If a speculator is bearish, she will buy security.

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9. Lot size is contract size.
10. Expiry date is the first date on which contract is traded.

Q2. Attempt a , b or c , d .

a. What is imperfect hedge? What are the reasons for imperfect hedge? 7.5

b. Differentiate between forwards and future. 7.5

OR

c. Calculate arbitrage free pricing of a 2-month contract of SBI if it is currently traded at 210.15/- and funds can be borrowed at 8 %. Is the future price contango or backwardation? 7.5

d. What will be the price of a 2-month forward contract of Fox ltd, if spot price is Rs 465/- per share and rate of interest is 11%, assuming no dividend is paid? 7.5

Q3. Attempt a, b or c, d.

a. Ms R is bullish on Timber Ltd. She purchased call option with strike price 820/- paying premium of Rs 30/-. Calculate her profit /loss in following situations and also draw pay off diagram if price on expiry is - 750, 700, 900, 820,850 7.5

b. Explain the following terms with the help of an example. 7.5
   1) Premium
   2) M2M
   3) Strike price

OR

c. What are the factors affecting option premium? 7.5

d. Why should one invest in Commodity Market? Explain the reasons. 7.5

Q4. Attempt a, b or c, d.

a. What are the different types of settlement? 7.5

b. What are the functions of NSCCL? 7.5

OR

c. What is VAR? Explain one method to measure VAR. 7.5

d. Explain the participants in commodity market. 7.5

Q5. a. Differentiate between hard and soft commodities traded in commodity market? 7.5

b. Explain clearing mechanism in derivative market. 7.5

OR

Q5. Short notes. (Any 3) 15

1. M2M Margin.
2. Limit order.
3. Call option.
4. Backwardation.
5. Contango.

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