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SPECIAL DRIVE-DEC./JAN.-2023
M.B.A. DEGREE EXAMINATIONS
SPECIALIZATION : FINANCIAL MANAGEMENT
FOURTH SEMESTER
Paper - II : FINANCIAL DERIVATIVES
(2016-17 & 2017-18 Admitted Batches)

Time : 3 Hours **Maximum Marks: 75**

SECTION - A

I. **Answer any FIVE questions not exceeding one page each.** **(5×4=20)**

   1.   Explain financial derivatives.

   2.   Briefly explain Value At Risk.

   3.   Discuss features of the options market.

   4.   What are pricing models?

   5.   Write about equity swaps.

   6.   Elaborate on the concept of intrinsic value.

   7.   What are basic option strategies?

   8.   Discuss the commodity swaps.

SECTION - B

II. **Answer all the questions not exceeding FOUR pages each.** **(5×8=40)**

   1.   a)   What are derivatives? Explain the growth of financial derivatives in India.

             (OR)

       b)   Elucidate the regulatory role of SEBI in derivative markets in India.

   2.   a)   Distinguish between futures and forward contracts with suitable examples.

             (OR)

       b)   How do you determine the pricing of future contracts? Explain by giving suitable examples.

3. a) What is an options market? Explain the significance of the options market in financial markets with relevant examples.

    (OR)

    b) An investor buys a put option with an exercise price of 'K' and writes a call option with the same strike price. Describe the payoff of the investor.

4. a) How does volatility affect the pricing of an option? Discuss various methods of volatility measurement.

    (OR)

    b) Discuss the derivation of one time period Binomial option pricing model with some hypothetical examples.

5. a) What do you mean by 'SWAPS'? Explain the advantages of SWAPS over other derivatives in managing interest rate risk.

    (OR)

    b) "An interest rate swap is a contract that commits two counterparties to exchange two interest payments over an agreed period. Comment on it. Briefly describe different types of Swaps with appropriate examples.

SECTION - C

III. Case Study (Compulsory)   **(1×15=15)**

A corporate treasurer intends to borrow money in the middle of May for a three-month period. The treasurer may fear that interest rates might have risen by the data of borrowing. Since a rise in interest rates would add to the cost of borrowing, a futures position is taken so that there would be on offsetting point in the event of rise in interest rate. Three months interest rate futures quoted on index basis, index is 100 minus the futures interest rate. So, futures interest rate of 6.5% pa. would entail a quote of 100-6.5=93.5%. The amount of borrowing is Rs.5,00,000. Show the position of treasurer from the futures contact. Suppose the interest rate stands at 6.5% and on may interest rate rises to 8%.

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