Subject Code: KMBNFM03

PAPER ID-410886

Roll No:

MBA
(SEM IV) THEORY EXAMINATION 2023-24
FINANCIAL DERIVATIVES

TIME: 3 HRS **M.MARKS: 100**

Note: 1. Attempt all Sections. If require any missing data; then choose suitably.

SECTION A

1. Attempt *all* questions in brief. 2 x 10 = 20

Q no.	Question	Marks	CO
a.	Differentiate between hedgers and speculators.	02	1
b.	What are the criticisms of derivative products?	02	1
c.	Discuss the meaning of Market to market (MTM) system	02	2
d.	"Volume and Open Interest are different". Explain the statement.	02	2
e.	Discuss the concept of American Style and European style of an option.	02	3
f.	Differentiate between naked call and covered call.	02	3
g.	What are inter-commodity spreads?	02	4
h.	Explain the meaning of perfect and imperfect hedging of commodities.	02	4
i.	Describe the features of interest rate swap.	02	5
j.	"Swaps are series of forward contracts". Explain the statement.	02	5

SECTION B

2. Attempt any *three* of the following: 3 x 10 = 30

a.	Discuss the evolution and features of derivatives markets.	10	1
b.	Show that, if the futures price of a commodity is greater than the spot price during the delivery period, then there is an arbitrage opportunity. Does an arbitrage opportunity exist if the futures price is less than the spot price? Explain your answer.	10	2
c.	Explain carefully the difference between writing a put option and buying a call option.	10	3
d.	Explain the nature, features, and specifications of commodity futures along with an example.	10	4
e.	Currency swaps can be used to convert assets or liabilities from one currency to another. Explain with a schematic diagram.	10	5

SECTION C

3. Attempt any *one* part of the following: 1 x 10 = 10

a.	Derivatives are of various types depending on various bases of discussion. Discuss the statement with examples.	10	1
b.	Explain carefully the difference between hedging, speculation, and arbitrage.	10	1

4. Attempt any *one* part of the following: 1 x 10 = 10

a.	What is the difference between a long forward position and a short forward position?	10	2
b.	It is July 2017. A mining company has just discovered a small deposit of gold. It will take 6 months to construct the mine. The gold will then be extracted on a more or less continuous basis for 1 year. Futures contracts on gold are available with delivery after every 2 months from August 2017 to December 2018. Each contract is for the delivery of 100 ounces. Discuss how the mining company might use futures markets for hedging.	10	2

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5. Attempt any *one* part of the following: 1 x 10 = 10

a.	Explain the Black Scholes model of option pricing for both call as well as put option.	10	3
b.	A stock price is currently \$100. Over each of the next two 6-month periods it is expected to go up by 10% or down by 10%. The risk-free interest rate is 8% per annum with continuous compounding. What is the value of a 1-year European call option with a strike price of \$100?	10	3

6. Attempt any *one* part of the following: 1 x 10 = 10

a.	Discuss the pricing method of consumption assets. Explain the opportunities of arbitrage available for the same.	10	4
b.	Chart out the historical development of various types of commodities in India.	10	4

7. Attempt any *one* part of the following: 1 x 10 = 10

a.	Explain how you would value a swap that is the exchange of a floating rate in one currency for a fixed rate in another currency.	10	5
b.	"Swap can be used to transform the nature of assets as well as liabilities". Explain the statement.	10	5