Roll N
4500

AC-407

July – August 2023
Master of Business Administration (MBA) Examination

(Full Time) (New) Fourth Semester
FT 404-F : FINANCIAL DERIVATIVES AND RISK MANAGEMENT

Time 3 Hours] [Max. Marks 80

Note : Attempt any four questions from Section A. Each question carries 15 marks. Section B is compulsory and carries 20 marks.

Section A

1. Define Derivatives. State and explain in brief the different types of Derivatives. What are the features of Derivatives Market ?

2. (a) Differentiate between Forward and Future Contract.
   (b) Define Speculation, Hedging and Arbitration.
   (c) Hedging through Forward Contract.

3. "Risk in general is the possibility of some unpleasant happening or the chance of encountering less." Analyze the major risks that occur in Financial Markets.

4. "Clearing House is a de facto guarantor for all the transactions in future." In the light of given statement analyze the functions of Clearing House.

5. Explain under which circumstances you would advise an investor to acquire each of the below trading strategies :
   (a) Vertical Spread.
   (b) Butterfly Spread.
   (c) Strip.
   (d) Strap.
   For each of the above trading strategies, draw diagram to reveal the potential profits and losses associated with each of these portfolios.

6. "Plain vanilla swap is simplest form of interest rate swap contract available in interest rates swap market." Discuss with suitable examples along with its structures and mechanism.

Section B

7. (a) What is the price of a 3-month European Put Option on a non dividend paying stock when the stock price is Rs. 52, the strike price is Rs. 50, risk free interest rate is 12% per annum and volatility is 30% per annum ?
   (b) Consider the following : Stock Price = Rs. 50, Months to Expiration = 3 months, Risk Free Rate of Interest = 10% p. a., Standard Deviation of Stock = 40%, Exercise Price = Rs. 55, Option Type = European Call. Calculate value of Call Option as per Black Scholes Model.

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