UNIT - IV

8. What is the purpose of entering into a swap contract ? What are its features and explain the trading mechanism of swaps ?

9. (a) Why is expected loss from a default on swap less than the expected loss from the default on a loan with the same principal ? How would you value a swap that is the exchange of a floating rate in one currency for a fixed rate in another currency ?

(b) Co. A, a British manufacturer, wishes to borrow US $ at a fixed rate of interest, Co. B. a US multinational, wishes to borrow Sterling at a fixed rate of interest. They have been quoted the following rates per annum (adjusted for differential tax effects).

	Sterling	US $
Co. A	11.0%	7.0%
Co. B	10.6%	6.2%

Design a swap that will net a bank, acting as intermediary, 10 basis points per annum, and that will produce a gain of 15 basis points p.a. for each of two companies.

Roll No. ....

56080

MBA 2 Year 4th Semester (NS) (Re-appear) Examination– December, 2016

FINANCIAL DERIVATIVES

Paper : MBA-412

Time : 3 hours ***Max. Marks : 80***

Before answering the questions, candidates should ensure that they have been supplied the correct and complete question paper. No complaint in this regard will be entertained after the examination.

Note : Section A is **compulsory**. Attempt any **four** questions from Section B selecting at least **one** questions from each unit. All questions carry equal marks.

SECTION - A

1. (a) What do you mean by "underlying assets" in derivatives ?

(b) What is stop-loss order ?

(c) What is the difference between local and commission broker ?

(d) Difference between spot and future price.

(e) What is the short position in put option ?

(f) What is the difference between European and American options ?

(g) What is the notional principal ?

(h) What is trade date, reset date and payment date ?

SECTION - B

UNIT - I

2. What is the meaning of financial derivatives ? What are its important features and uses ? Discuss the current trends and future prospects of derivative market in India.

3. Explain the difference between hedging, speculation and arbitrage. Explain the different types of orders prevailing in markets.

UNIT - II

4. How are forward contracts different from future contracts ? Explain the delivery mechanism under future trading along with the role of clearing house in this respect.

How can you close your position in a future contract ?

5. How can a businessman hedge using future contracts ? Explain various types of stock index futures with examples. How a finance manager uses the stock index futures ?

UNIT - III

6. (a) "Options are the safest instruments for investors for investment purposes". Critically examine the statement. What are important positions that can be taken in an option contract by writer in different situations ?

(b) Suppose a call option purchase of a U.S. dollar for ₹ 42 while it is quoted at ₹ 42.60 in market. Premium paid for all option is ₹ 1.00. Calculate time value and intrinsic value of call option.

7. What do you mean by log normal distribution and volatility ? How do they help in determining option price ? Discuss the Black-Scholes option pricing model.