Reg. No. | | | | | | | | |

MBA (FT/PT) Degree IV Semester End Semester Examination - June, 2022

20-371-0455/20-372-0411: Financial Derivatives and Risk Management

(Regular)

Time: 3 Hours **Max. Marks: 50**

PART A

(*Answer ALL questions. Each question carries 2 marks*)

1. Compare and contrast risk with exposure.
2. What is meant by translation exposure?
3. Who are the major participants in derivative markets?
4. Define 'intrinsic value' of a call option.
5. Distinguish between Plain vanilla options and exotic options.

(5X2=10)

PART B

(*Answer ANY FIVE Questions. Each question carries 4 marks*)

6. Critically examine the macroeconomic environment that contributes risks to business firms.
7. Discuss the importance of swap contracts in risk management? Also explain the features of currency swaps.
8. Differentiate between 'exchange traded derivatives and OTC derivatives'. Bring out the significance of exchange traded derivatives in Indian context.
9. Describe the different types of margins used in futures trading.
10. Write brief notes on: a) Option Greeks b) Put-call parity c) Bermuda options and d) Hedge ratio.
11. Briefly explain the long and short positions in forward markets. Highlight the differences between 'in the money' and 'out of the money' positions with respect to long call option contracts.
12. a) What is protective put strategy?

    b) The current stock price is Rs.100/- and a put with 3 month maturity having the strike price Rs. 98 is available at a price of Rs.4/-. Prepare a payoff table at various values of strike price ranging from Rs. 95 to 105?

(5X4=20)

PART C

(Answer ANY TWO questions. Each question carries 10 marks)

13. Explain in detail the role and functions of derivative instruments for the dynamic functioning of capital markets. Sketch the differences between future contracts and forward contracts.

14. "Option is a right but not obligation for the buyer of options." Do you agree? Enumerate various types of 'option spread strategies' used for risk management.

15. Distinguish between The current price for a stock index is 1,000. The following premiums exist for various options to buy or sell the stock index six months from now:

Strike Price	Call Premium	Put Premium
950	120.41	51.78
1,000	93.81	74.20
1,050	71.80	101.21

Assume that the price of the stock index in 6 months will be 975. You are required to evaluate the following strategies and identify the best one.

a) Strategy I is to buy the 1,050-strike call and to sell the 950-strike call.

b) Strategy II is to buy the 1,050-strike put and to sell the 950-strike put.

(2x10=20)