Roll No. ....

56080

MBA 2 Year 4th Semester (N.S.) Examination–May, 2015

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 **four** questions selecting at least **one** question from each unit from Section B. All questions carry equal marks.

Section-A

1. Define the following terms :

(a) Arbitrageurs

(b) Interest Rate Risk

(c) Cost of Carry

(d) Hedge Ratio

(e) Systematic Risk

(f) Equity Swap

(g) Call Option

(h) Put-Call Parity

Section-B

UNIT-I

2. What are derivatives ? Discuss its growth and development in India in detail.

3. What are the different types of orders available to investors for trading in an exchange. Discuss their suitability to investors with example.

Unit-II

4. What is index future ? How would you control the beta of a portfolio with futures ? Explain it with a suitable example.

5. What is currency future ? Explain hedging strategy for payables and receivables using currency futures.

Unit-III

6. What do you understand by option contract ? Why cannot the difference between two call prices exceed the difference between their strike prices ? If this happens how would you benefit ? Explain with the help of an example.

7. What are the main option trading strategies ? Compare a strangle with a straddle using suitable example.

Unit-IV

8. Company P and Company Q have equal requirements for funds of Rs. 50 Crore each. They have been offered the following debt rates in the fixed and floating rate market for debt :

	Fixed Rate	Floating Rate
Company P	10.00%	MIBOR + 50 bps
Company Q	12.00%	MIBOR + 150 bps

P wants funds at a floating rate, while Q is happy to raise funds on a fixed rate basis. A bank is willing to act as intermediary with 20 bps as its remuneration. Depict a swap sharing the gains equally and find out the cost of funds for P and Q. What would be the saving in financing cost for each firm ?

9. What are the main applications of a swap contract ? Why is swap intermediary important in a swap contract ?