IT-IV

8. What is a fi ial swap ? Discuss its features. Wha the various motivations underlying sw :ontracts ? Explain the trading mecha with examples.

9. (a) Why is ex] l loss from a default on swap is les n the expected loss from the defaul a loan with the same principal ? would you value a swap that is the ange of a floating rate in one curren : a fixed rate in another currency ?

(b) Co. A, a B manufacturer, wishes to borrow US fixed rate of interest, Co. B, a US n tional, wishes to borrow Sterling at :ed rate of interest. They have been c as the following rates per annum (adj for differential tax effects).

	rling	US $
Co. A	0%	7.0%
Co. E	5%	6.2%

Design a swap vill net a bank, acting as intermediary, 1 sis point per annum and that will produ ain of 15 basis point p.a. for each of two anies.

Roll No. ....

56080

MBA 2 Year 4th Semester (N.S.) Examination– May, 2016

FINANCIAL DERIVATIVES

(Only for Re-appear)

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** question from each Unit.

SECTION - A

1. Answer the following in brief :

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

(b) What is Market If Touched order ?

(c) What do you mean by open interest ?

(d) What do you ı by MTM ?

(e) What is the lc ɔsition in call option ?

(f) Difference b :n strike price and exercise price

(g) What is defau k in swaps ?

(h) What is tra late, reset date and payment date

SE N - B

- I

2. Explain the di t types of financial derivatives. What :he important features of derivatives ar uses ? Discuss the current trends future prospects of derivative market dia.

3. Explain the dil :e between hedging, speculation anc ɔitrage. Explain the different types of prevailing in markets.

I II

4. Differentiate bet forward and future contract. Write te on future trading mechanism. Ho ure position can be closed ? Explain xample.

5. Discuss the nature, features and uses of interest rate futures. Explain the concept of term structure of interest rates. Also explain its relevance in determining level of interest rates ? How they can be used for hedging ?

UNIT - III

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

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

7. Price of an option depends upon a number of factors. Comment on the statement in the light of various factors which affect value of option. Discuss the Black-Scholes option pricing model.