Code: 9E00403a

MBA & MBA (Finance) IV Semester Regular & Supplementary Examinations September/October 2014

FINANCIAL DERIVATIVES

(For students admitted in 2010, 2011 and 2012 only)

Time: 3 hours Max Marks: 60

Answer any FIVE questions

All questions carry equal marks

*****

1 Explain the term 'financial derivative'. What are its important features? Explain with suitable examples.

2 Clearly bring out the need of derivatives market in India with suitable arguments in favour and disfavour.

3 Discuss various characteristic features of futures contracts. What is the role of clearing corporation in trading of such contracts?

4 A stock index currently stands at 350. The risk-free rate is 8% per annum and dividend yield on index is 4% per annum. What should be the future price for a four-month contract?

5 You are given with the following data on a certain share and a call option on the stock:

Share price	Rs 67
Exercise price	Rs 65
Time to expiration	3 months
Risk-free rate of return (Continuously compounded)	8% per annum
Variance of stock's return	0.36

(a) Calculate the value of the option using the Black and Scholes model.

(b) If this option is priced at Rs 7.50, what investment strategy would you suggest?

(c) Use your answer in part (a) to calculate the value of a put option with identical exercise price and time to maturity.

6 Define options. Explain trading strategies involving options.

7 Define swaps. Describe major types of swaps and its features.

8 What are the various motivations underlying swap contract?

*****