

**MASTER OF BUSINESS ADMINISTRATION
FOURTH SEMESTER
MANAGEMENT OF FINANCIAL DERIVATIVES
MBA – 404(C)
[USE OMR FOR OBJECTIVE PART]**

2025/06

**SET
A**

Duration: 3 hrs.

Full Marks: 70

Time: 30 min.

Marks: 20

(Objective)

1×20=20

Choose the correct answer from the following:

1. The primary purpose of using derivatives is to:
a. Increase production b. Raise capital
c. Hedge risk or speculate d. Pay dividends
2. Futures differ from forwards because they are -----
a. Used to hedge portfolios b. Used to hedge individual securities.
c. Used in both financial and foreign d. A standardized contract.
exchange markets.
3. Identify the false statement.
a. Futures contracts trade on a financial b. Futures contracts are marked to market.
exchange.
c. Futures contracts allow fewer delivery d. Futures contracts are more liquid than
options than forward contracts. forward contracts
4. What characterizes a bull market?
a. Falling prices and investor pessimism b. Rising prices and investor optimism
c. Stable prices and low trading volume d. Declining GDP and high inflation
5. One key difference between futures and forwards is:
a. Only forwards involve commodities b. Futures are settled daily; forwards are
settled at maturity
c. Forwards are risk-free; futures are not d. Futures have no counterparty risk
6. Which Indian stock exchange is known for active derivatives trading?
a. BSE b. NSE
c. MCX d. NCDEX

7. In a commodity swap, what are the two parties typically exchanging?
 - a. Fixed interest rates for floating interest rates
 - b. Commodities such as oil or gold for cash payments
 - c. Different currencies
 - d. Equity shares
8. Which of the following players in the derivatives market aims to profit from price movements without actually owning the underlying asset?
 - a. Hedgers
 - b. Arbitrageurs
 - c. Speculators
 - d. Market Makers
9. Which of the following is a characteristic of a "call option"?
 - a. It gives the holder the right to sell the underlying asset at a specific price.
 - b. It gives the holder the right to buy the underlying asset at a specific price
 - c. It is only exercisable on the expiration date.
 - d. It is a contract where the holder has to buy the underlying asset at the market price.
10. The abbreviation "CDS" stands for:
 - a. Credit Default Swap
 - b. Commodities Derivative Security
 - c. Currency Derivative Swap
 - d. Credit Delivery Swap
11. In an options contract, the price at which the option holder can buy or sell the asset is called:
 - a. Spot Price
 - b. Premium
 - c. Strike Price
 - d. Forward Rate
12. What is the Stock Exchange Sensitive Index's (Sensex) total number of companies?
 - a. 40
 - b. 30
 - c. 60
 - d. 40
13. Which of the following is not a component of the cost of carry?
 - a. Storage costs
 - b. Insurance costs
 - c. Dividend yield
 - d. Market volatility
14. Which of the following derivatives is most associated with managing foreign exchange risk?
 - a. Equity Futures
 - b. Currency Swaps
 - c. Interest Rate Options
 - d. Commodity Options
15. Where is the National Stock Exchange headquartered?
 - a. The city of Madras.
 - b. Himachal Pradesh.
 - c. The city of Mumbai.
 - d. The city of Hyderabad.

16. Which of the following is not true about index futures?
- They are settled in cash
 - They involve actual delivery of shares
 - They are based on a stock market index
 - They can be used for hedging market exposure
17. The Black-Scholes model, which revolutionized options pricing, was introduced in:
- 1965
 - 1973
 - 1980
 - 1990
18. A Commodity Swap typically involves the exchange of:
- A fixed amount of money for an interest rate.
 - Payments based on a fixed interest rate for payments based on a commodity price.
 - Currency payments between two parties.
 - The exchange of bond payments for stock dividends.
19. When did SEBI permit derivatives trading based on the L. C. Gupta Committee's recommendations?
- 1995
 - 1998
 - 2000
 - 2005
20. Which of the following is true about stock index futures?
- They are contracts to buy/sell a specific stock
 - They involve buying physical shares in the future
 - They are based on the value of a stock market index
 - They are traded only in the OTC market

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(Descriptive)

Time: 2 hr. 30 mins.

Marks: 50

[Answer question no.1 & any four (4) from the rest]

1. a) Write the meaning of derivatives. Derivative market attracts diverse set of participants. They widely speculate and hence make money. Some use them as risk transfer vehicle as well." - Explain. 5+5=10
- b) Discuss the significance of derivatives markets.

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| 2. | If an investor buys a three-year bond whose current price is Rs. 700 and which will mature after 1 year. If the risk-free rate of return is 6%. What is the forward price for settlement in a year?
Elaborate the similarities and dissimilarities of future market and forward market. | 3+7=10 |
| 3. | a) Elucidate the concept of future derivative payoff with diagram

b) "Futures contracts are broadly categorized by the type of underlying asset they represent, leading to various classifications. These categories reflect the diverse range of assets used to hedge against risk or speculate on market movements." -Explain | 5+5=10 |
| 4. | a) Highlight the key recommendations of the L.C. Gupta Committee on Derivatives.

b) Define margin, S&P index, LIBOR and credit derivatives | 5+5=10 |
| 5. | Write a note on Swap derivatives and its types. Also explain the economic function of swap derivatives. | 2+4+4+1=10 |
| 6. | Explain in detail the concept and types of option contract and its orders. | 10 |
| 7. | Discuss elaborately the concept of Cost of Carry Model with assumptions. | 6+4=10 |
| 8. | Define stock index futures. Highlight the features of it along with its types. | 4+6=10 |

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