REV-00
MBA/12/18 2017/06

MASTER OF BUSINESS ADMINISTRATION
Fourth Semester
MANAGEMENT OF FINANCIAL DERIVATIVES
(MBA – 404 C)

Duration: 3Hrs. **Full Marks: 70**

Part-A (Objective) =20
Part-B (Descriptive) =50

(PART-B: Descriptive)

Duration: 2 hrs. 40 mins. **Marks: 50**

Answer any *four* from *Question no.* 2 to 8
***Question no.* 1 is compulsory.**

1. Pritam is interested in writing a PUT option on ABACUS Pvt Ltd company's share (9 months). Currently the company's share is selling for Rs 120. The volatility of the share return is estimated as 67%. Pritam would live to exercise price to be Rs 120. The risk free rate is assumed to be 10%. How much premium should Pritam charge for writing the PUT option? (10)
2. Explain the following with a diagram: (10)
   a) SPREAD Strategy
   b) STRADDLE Strategy
   c) STRANGLE Strategy
   d) CONTAGO
3. Explain Currency Swap and Interest Swap. What are its advantages? Explain the functions of Swap Transactions. (10)
4. When will an option holder exercise one's right to buy/sell an option? Give the graphical representation of– (10)
   (i) Pay off of CALL option buyer
   (ii) Pay off of CALL option seller

5. What are the different types of Investor profiles? Explain "IN THE MONEY" and "OUT OF MONEY" positions. (10)
6. Explain the different types of Swap Contracts with a detailed example. (10)
7. Highlight any major five points of difference between Forward Contract and Future Contract. (10)
8. What is a Call Premium? Why is it required to be paid? Explain– (10)
   (i) American Styled options
   (ii) European Styled options

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Duration: 20 minutes **Marks – 20**

(PART A - Objective Type)

I. Choose the correct answer: **1×20=20**

1. According to Black and Scholes model, Stocks with Call option pays:
   i) Past price
   ii) Dividends
   iii) Current price
   iv) No dividends

2. Currency Swap can be used to hedge:
   i) Political risks
   ii) Exchange rate risks
   iii) Interest exposures
   iv) Market risks

3. Which of the following does the most to reduce default risk for futures contract?
   i) High liquidity
   ii) Marketing to market
   iii) Credit checks for both buyer and seller
   iv) Flexible delivery arrangements

4. Settlement of Options of an individual stock is done on ....basis.
   i) T + 1
   ii) T – 1
   iii) T
   iv) T^{n+1}

5. Situations in Financial options in which strike price is less than current price of stock is:
   i) In – the – money
   ii) Out – of – money
   iii) Out – of – portfolio
   iv) In – the - portfolio

6. The Black and Scholes model is as follows:
   i) $C_o = SE(d_1) - Ne^{-rt} N(d_2)$
   ii) $C_o = SE(d_1) + Ee^{-t} N(d_2)$
   iii) $C_o = EN(d_1) - Se^{-rt} N(d_2)$
   iv) $C_o = SN(d_1) - Ee^{-rt} N(d_2)$

7. If current price increases from lower to higher then:
   i) Option value equal to one
   ii) Option value will increase
   iii) Option value will decrease
   iv) Option value equal to zero

8. An investor who buys shares and writes a call option on stock is called:
   i) PUT investor
   ii) Volatile hedge
   iii) CALL investor
   iv) Hedger

9. Using Futures contract to transfer price risk is called:
   i) Speculating
   ii) Hedging
   iii) Diversifying
   iv) Arbitrage

10. Standardized Futures Contract exist for all of the following underlying assets except:
    i) Gold
    ii) Stock indices
    iii) Treasury bonds
    iv) Common stocks

11. "Marked to Market" strategy, gains and losses are settled:
    i) (T-1) day
    ii) Fortnightly
    iii) Daily
    iv) Weekly

12. Type of Option which cannot be exercised before an expiry date is classified as:
    i) European option
    ii) Australian Option
    iii) American Option
    iv) Money Option

13. Present value of portfolio is INR 400 and the current option price is INR 1300 then value of stock included in portfolio will be:
    i) INR 1700
    ii) – INR 900
    iii) INR 900
    iv) – INR 1700

14. An increase in value of Option leads to low present value of exercise cost only if it has:
    i) Low Volatility
    ii) High Interest rates
    iii) Low Interest Rates
    iv) High Volatility

15. Derivatives trading commenced in the year:
   i) June 2000
   ii) July 1999
   iii) July 1875
   iv) June 1850

16. Which of the following characteristics about Futures Contract is false?
   i) Marked to Market
   ii) Financial exchange traded
   iii) Higher Liquidity
   iv) Fewer delivery option

17. When Future Prices > Spot prices, it is known as:
   i) Spread
   ii) Contago
   iii) Backwardation
   iv) Strangle

18. A Trading Strategy involving taking a position in two or more options of the same type, is called:
   i) Strangle
   ii) Spread
   iii) Backwardation
   iv) Straddle

19. An Option that gives the investors the right to sell a stock at predetermined price is:
   i) PUT option
   ii) OUT OF MONEY option
   iii) CALL option
   iv) MONEY BACK option

20. According to Black & Scholes Model, purchaser can borrow fraction of security at risk free interest rate which is:
   i) Long term
   ii) No transaction cost
   iii) Short term
   iv) Transaction Cost

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SESSION: 2016-17

COURSE______________ PAPER Code:____________

NAME OF THE PAPER:________________________

SEMESTER__________________________________

Instructions to Candidates

1. This answer booklet has 4 pages. Please check before writing whether it is complete or in good condition.
2. Do not write your name anywhere in the answer booklet.
3. Write legibly on both sides of the paper
4. You may use some space for any rough notes or calculation on the answer booklet if you need. These rough notes, calculations must be scored out before submitting the answer booklet.
5. Do not bring any book or loose paper in the examination hall.
6. Do not tear any page from the answer booklet.
7. Do not write anything on the question paper or blotting paper or any pieces of paper while you are in the examination hall.
8. Any act of indiscipline or misbehavior in the examination hall will result in your expulsion.
9. No examinee is allowed to leave the examination hall until 30 minutes lapse after the commencement of the examination.
10. Additional answer sheet will be supplied after the main answer booklet is completed.

For Objective Type Questions

Page No.	Marks
Total	

For Descriptive Type Questions

Question No.	Marks
Total	
Grand Total	

Session: 2016-17

Course________________

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