MBFM 4005

M.B.A. DEGREE EXAMINATION, JUNE 2014.

Fourth Semester

Finance

Paper XX – FINANCIAL DERIVATIVES

Time : Three hours Maximum : 100 marks

PART A — ($5 \times 6 = 30$ marks)

Answer any FIVE out of the following.

1. What are derivatives? State its uses.

2. Explain about various types of financial derivatives.

3. How are options priced in derivatives market?

4. What are the determinants of option?

5. Explain different types of financial swaps.

6. Explain the need for Speculators in derivatives market.

7. Explain Futures Contract. What are its advantages?

8. Give a brief note on Dr. Gupta committee report.

PART B — ($5 \times 10 = 50$ marks)

Answer any FIVE out of the following.

9. State the difference between forward and futures contracts.

10. Explain briefly the basic principles of option trading?

11. What is a currency swap? How does currency swap reduce exposure to risk?

12. Differentiate the selling a call option and buying a put option? Illustrate your answer.

13. Explain briefly about the Futures market trading Mechanism.

14. Why is it beneficial to exercise an European call option lately? Give reasons.

15. Explain the emerging structure of derivatives markets in India.

16. What is risk? How can risk of a security be calculated?

PART C — ($1 \times 20 = 20$ marks)

Case study-Compulsory

17. Dr. C.K. Raghu is the portfolio manager in UTI Mutual Fund Company. He has a debt fund that has invested Rs. 200 million in long term corporate debentures. He wants to convert the holding into a synthetic floating rate portfolio. The portfolio pays 9 per cent fixed return. Assume that a swap dealer offer 9 percent fixed for MIBOR (Mumbai inter borrowing rate)

    (a) What should Dr. C.K. Raghu do?

    (b) What will be the net payment?
