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## 4M6405

M.B.A. (Sem. IV) (Main& Back) Examination, May/June-2011 M-405: Financial Derivatives (Major)

Time: 3 Hours]

[Total Marks: 70

[Min. Passing Marks: 28

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The question paper is divided in two sections. There are sections A & B. Section A contains 6 questions out of which the candidate is required to attempt any 4 questions. Section B contains short case study/application base 1 question which is compulsory.

All questions are carrying equal marks.

Use of following supporting material is permitted during (	examınatıoı	n.
(Mentioned in form No. 205)		

SECTION -	A
SECTION -	

- 1 Write the regulation of derivative trading in India.
- 2 How 'Long position and short position' can be offsetting in futures contracts? Explain with a suitable example.
- 3 What is the difference between forward and futures markets?
  Briefly explain.
- 4 Explain following terms:
  - (a) Clearing house (b) Specification of futures contact (c) Eligibility criteria for stocks in F&O (d) Cost of carry model in futures
  - (e) Open interest position (f) Put option (g) Strike price.

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[Contd...

5 Consider the following figures:

Asset price (today)

= Rs. 130

Strike price

= Rs. 135

Call premium

= Rs. 4

Find out net profit if closing price may be anywhere from Rs. 130 to Rs. 150.

A firm needs Rs. 10,00,000 for its one project for next six months. The firm arranged it through a bank to advance the loan on a floating interest rate basis with interest being payable quarterly and rate of interest equal to T-bill yield+250 basis points. Since the current T-bill yield is 5.25%, the floating rate loan is alternative at 7.75 % (5.25+2.50).

For the second half of the loan (from 91<sup>st</sup> day till 180<sup>th</sup> day) the interest rate may rise and loan may become expensive. The firm is considering taking advantage of the floating interest rate loan but worried about the interest rate risk. Currently the 91-day T-bill is quoted at Rs. 94.15.

If after 90 days, T-bill (91-day) is quoted at 93.35 than show how this firm has locked in its interest cost at the time of taking the loan? Also calculate net interest expenses.

## **SECTION - B**

Suppose that a European call option to buy a share for Rs. 800 for a premium of Rs. 12 and it is held until maturity. Under what circumstance the holders of the option will makes a profit? Under what circumstances the option will be exercised?