H Roll No. ....

MB–403-F2

M. B. A. (FOURTH SEMESTER)

END SEMESTER

EXAMINATION, May, 2023

FINANCIAL DERIVATIVES

Time : Three Hours

Maximum Marks : 100

Note : (i) This question paper contains *two* Sections–Section A and Section B.

(ii) Both Sections are compulsory.

(iii) Answer any two sub-questions among (a), (b) & (c) in each main question of Section A. Each sub-question carries 10 marks.

(iv) Section B consisting of Case Study is compulsory. Section B is of 20 marks.

P. T. O.

Section—A

1. (a) Using appropriate examples, define "derivatives." What are a derivative instrument's underlying assets ? (CO1)

   (b) Draw attention to the parallels and differences between forwards, futures, options, and swaps. (CO1)

   (c) Discuss the participants in the trading of derivatives. (CO1)

2. (a) "Forward contracts serve as the futures market's forerunners." Analyze the claim critically in light of the expansion of the forward market globally. (CO2)

   (b) Describe the forward contract concept and its characteristics. Discuss the forward market's trading system in brief. (CO2)

   (c) The reward for purchasing a futures contract is comparable to the reward for holding an asset. Discuss using a relevant example. (CO2)

3. (a) With appropriate examples, compare and contrast the differences between futures and option contracts. Make a thorough note of the key vocabulary and trading principles used in the option market. (CO3)

   (b) The call option for Infosys is selling at ₹ 20 for a strike price of ₹ 660. What will be the profit for the option holder if the spot price touches (a) ₹ 700 (b) ₹ 674 ? (CO3)

   (c) Hedging is the basic function of futures market. Discuss the statement in the light of uses of futures contract. (CO3)

4. (a) What is a currency swap ? How does currency swap reduce exposure to risk ? (CO4)

   (b) What are the various assumptions of binomial pricing model ? Also discuss one step binomial pricing model with hypothetical examples. (CO4)

(c) Differentiate between call and put options. What are the rights and obligations of the holders of long and short positions in them ? (CO4)

Section—B

5. **Case Study :** (CO5) 2×10=20 Marks

During the derivatives crisis of the early and mid-1990s, big firms like Gibson Greetings and Procter & Gamble had to bear immense losses as a result of derivatives speculation, while Orange County and Calif were forced to file for bankruptcy as their treasurer's failed in their derivatives bets. It was the time when many felt that corporate treasurers and others were lured in derivatives betting by Wall Street salesmen who had a little more understanding about these products than the customers. But these days, derivatives rarely make news. According to Wharton accounting professor, Wayne Guay, the way derivatives are being used in the market has matured. He feels that twenty years ago derivatives were not at all common in the market, but today many

derivatives contracts ac standardized, well understood and economically priced. In order to understand the amount of risk faced by companies through their derivatives bets, Guay and SP Kothari, an. accounting professor at MIT's Sloan School of Management examined the non financial firms that used derivatives. The result revealed that for most of the firms the quantity of derivatives that they used was quite insignificant when compared to how big these companies were.

Questions : .

1. Comment on the changing trends of derivatives in the last decade.
2. 'The Indian derivatives market has witnessed a number of changes in the recent past. After the introduction of futures and options on individual stocks, the market is all set to get a face-lift with the introduction of currency options'. Comment.