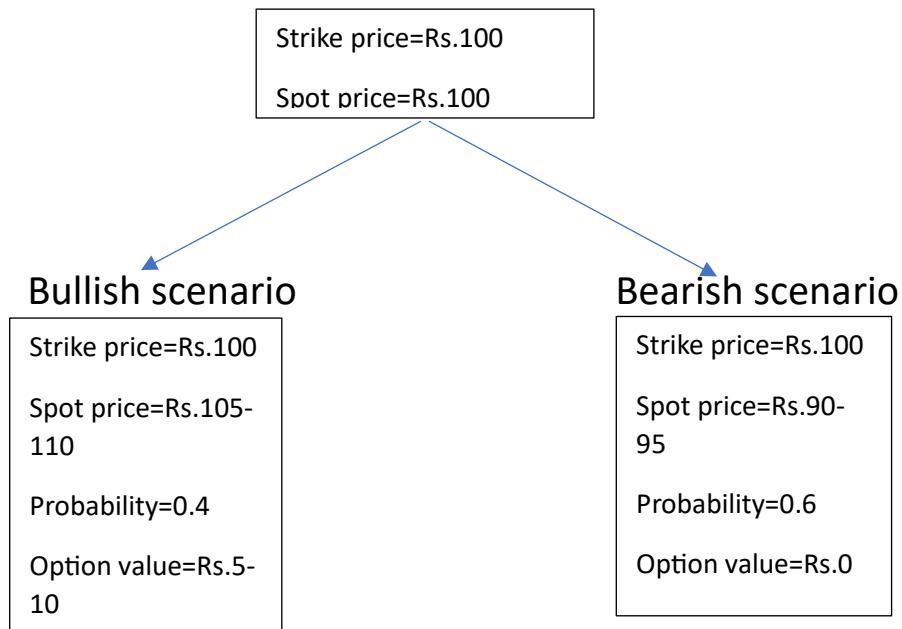


Project 2

1)call option:

Strike price=Rs.100

Option premium=Rs.3



Current option price (assuming 5% risk free return rate) =

$$e^{-0.05}[0.6 \cdot 0 + 0.4 \cdot 10] = \text{Rs.}3.8$$

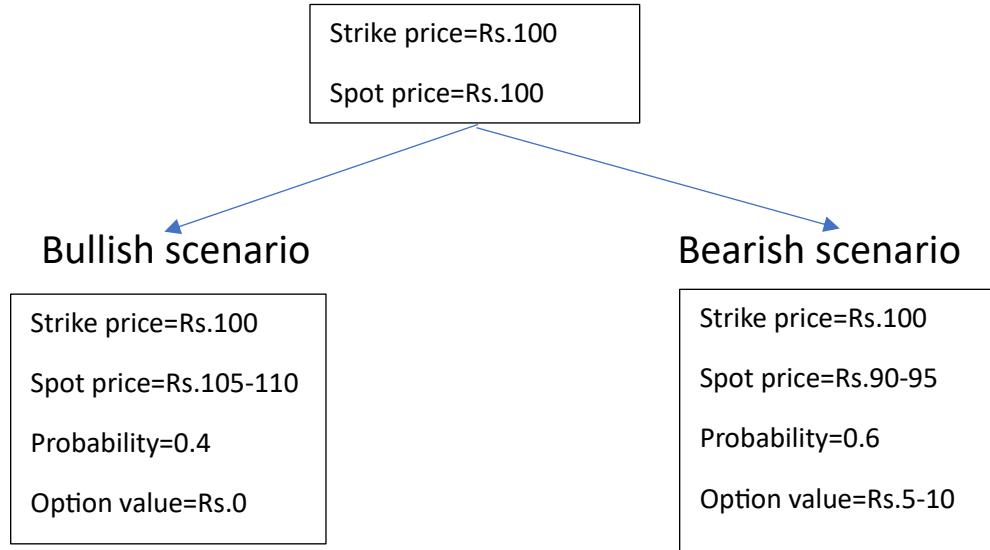
In this case, Mr.B would exercise the option when market is bullish while he would let it expire when market is bearish.

2)Put option:

Strike Price=Rs.100

Option Premium=Rs.3

Project 2



In Bullish scenario Mr.B will let option contract expire while in bearish scenario he will exercise it.

Project 2

2)

Currency risk exposure:

The company is exposed to currency risks while sourcing its material from China where the payments are done in Yuan and when the delivery of goods is done in Europe and America where the payments are received in Euros and Dollars respectively.

Hedging with futures:

The company can buy currency futures of Euros, Dollars, Yuan

So as to hedge the depreciation of the currency by taking short position in the contract.

Utilizing currency option:

Options provide a right to buy or sell. Risk can be managed by purchasing options to hedge against adverse currency movements while allowing participation in favourable movements. Put option can be bought for protection against currency depreciation while call option can be bought for protection against currency appreciation.

Currency risk management strategy should be diversified by using a combination of futures and options contracts. This will allow ABC Ltd. to tailor hedging approach to specific currency exposures and market conditions.

In addition to this regular review of hedging strategy should be done to assess its effectiveness make necessary changes, evaluation of market conditions and business operations should also be done to refine the approach.

Some additional considerations:

Cost-Benefit Analysis: Evaluating the costs associated with hedging activities against the potential benefits of risk reduction.

Project 2

Regulatory Compliance: Ensuring compliance with regulatory requirements governing currency hedging activities.

Expert Advice: Consider seeking guidance from financial advisors or currency risk management specialists to develop and implement an effective hedging strategy.