

Total No. of Questions: 6

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Enrollment No.....



Faculty of Commerce  
End Sem (Even) Examination May-2022  
CM3EB07 Financial Derivatives  
Programme: B.Com. (Hons.) Branch/Specialisation: Commerce

Duration: 3 Hrs.

Maximum Marks: 60

Note: All questions are compulsory. Internal choices, if any, are indicated. Answers of Q.1 (MCQs) should be written in full instead of only a, b, c or d.

- Q.1 i. Financial derivatives include: 1  
(a) Stocks (b) Bonds (c) Futures (d) None of these
- ii. By hedging a portfolio, a bank manager: 1  
(a) Reduces interest rate risk  
(b) Increases reinvestment risk  
(c) Increases exchange rate risk  
(d) Increases the probability of gains
- iii. The type of unit which guarantee that all the buying and selling will be made by traders of exchange is: 1  
(a) Trading House (b) Guarantee House  
(c) Clearing House (d) None of these
- iv. When did The Securities Contracts Regulation Act 1956, come into force? 1  
(a) 01 April 1956 (b) 01 March 1957  
(c) 20 February 1957 (d) 23 April 1956
- v. A disadvantage of a forward contract is that: 1  
(a) It may be difficult to locate a counterparty  
(b) The forward market suffers from lack of liquidity  
(c) These contracts have default risk  
(d) All of these
- vi. Parties who have bought a futures contract and thereby agreed to (take delivery of) the bonds are said to have taken a position. 1  
(a) Sell; Short (b) Buy; Short  
(c) Sell; Long (d) Buy; Long

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- vii. The seller of an option is to buy or sell the underlying asset while the purchaser of an option has to buy or sell the asset. **1**  
 (a) Obligated; Right (b) Right; Obligation  
 (c) Obligated; Obligation (d) Right; Right
- viii. The amount paid for an option is: **1**  
 (a) Strike Price (b) Premium  
 (c) Discount (d) Commission
- ix. The amount of money involved in Swap transaction is termed as: **1**  
 (a) Notion Principle (b) Swap Principle  
 (c) Transaction Principle (d) None of these
- x. In Interest Rate Swap transaction, parties who pay the floating payments of interest as: **1**  
 (a) Notion Buyer (b) Swap Buyer  
 (c) Notion Seller (d) Swap Seller
- Q.2 i. Define the concept of Derivatives. **2**  
 ii. Briefly discuss about the uses of Financial Derivatives. **3**  
 iii. Discuss the historical background and evolution of Derivatives in India. **5**
- OR iv. Explain the features and types of Financial Derivatives. **5**
- Q.3 i. What does the security Contract Regulation Act 1956 deal with? **2**  
 ii. What are the recommendation of Dr. L.C Gupta and J R Varma Committee on Derivatives? **8**
- OR iii. "Clearing House is a de facto guarantor for all the transactions in futures." Briefly describe the regulations for clearing and settlement. **8**
- Q.4 i. Explain the features of different types of Forward Contracts. **3**  
 ii. Define Futures. Explain the Futures Trading Mechanism in India. **7**
- OR iii. Difference between Forward and Future Contract. **7**
- Q.5 i. Distinguish between straddle and strangle option strategies with the help of example. **4**

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- ii. Differentiate between call and put options. What are the rights and obligations of the holders of long and short positions in them? **6**
- OR iii. What are the factors affecting the Option Price? **6**
- Q.6 Attempt any two:
- i. Explain the features of Swap Contract? **5**
- ii. Briefly discuss the structure and trading mechanism of Currency Swap? **5**
- iii. Discuss any five types of Financial Swaps? **5**

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**Marking Scheme**  
**CM3EB07 Financial Derivatives**

Q.1	i.	Financial derivatives include: (c) Futures	<b>1</b>
	ii.	By hedging a portfolio, a bank manager: (a) Reduces interest rate risk	<b>1</b>
	iii.	The type of unit which guarantee that all the buying and selling will be made by traders of exchange is: (c) Clearing House	<b>1</b>
	iv.	When did The Securities Contracts Regulation Act 1956, come into force? (c) 20 February 1957	<b>1</b>
	v.	A disadvantage of a forward contract is that: (d) All of these	<b>1</b>
	vi.	Parties who have bought a futures contract and thereby agreed to (take delivery of) the bonds are said to have taken a position. (d) Buy; Long	<b>1</b>
	vii.	The seller of an option is to buy or sell the underlying asset while the purchaser of an option has to buy or sell the asset. (a) Obligated; Right	<b>1</b>
	viii.	The amount paid for an option is: (b) Premium	<b>1</b>
	ix.	The amount of money involved in Swap transaction is termed as: (a) Notion Principle	<b>1</b>
	x.	In Interest Rate Swap transaction, parties who pay the floating payments of interest as: (d) Swap Seller	<b>1</b>
Q.2	i.	Definition concept of Derivatives.	<b>2</b>
	ii.	Three uses of Financial Derivatives 1 mark for each (1 mark * 3)	<b>3</b>
	iii.	Historical background of Derivatives in India As per the explanation	<b>5</b>
OR	iv.	Features of Financial Derivatives	2 marks
		Types of Financial Derivatives.	3 marks

Q.3	i.	Security Contract Regulation Act 1956 As per the explanation	<b>2</b>
	ii.	Recommendation of Dr. L.C Gupta and J R Varma Committee on Derivatives As per the explanation	<b>8</b>
	OR	iii.	“Clearing House is a de facto guarantor for all the transactions in futures.” Briefly describe the regulations for clearing and settlement. As per the explanation
Q.4	i.	Features of different types of Forward Contracts. 1 mark for each	<b>3</b> (1 mark * 3)
	ii.	Concept of Futures Futures Trading Mechanism	<b>7</b> 2 marks 5 marks
	OR	iii.	Difference between Forward and Future Contract 1 mark for each differences
Q.5	i.	Straddle option strategies with example Strangle option strategies with example	<b>4</b> 2 marks 2 marks
	ii.	Differentiate between call and put options. 1 mark for each difference (1 mark * 4) Rights and obligations of the holders	<b>6</b> 4 marks 2 marks
	OR	iii.	What are the factors affecting the Option Price? 1.5 marks for each factor
Q.6		Attempt any two:	
	i.	Features of Swap Contract 1 mark for each feature	<b>5</b> (1 mark * 5)
	ii.	Structure of Currency Swap Trading mechanism of Currency Swap	<b>5</b> 2 marks 3 marks
	iii.	Any five types of Financial Swaps 1 mark for each type	<b>5</b> (1 mark * 5)

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