Total No. of Questions: 6 Total No. of Printed Pages:3

Enrollment No......................................

Faculty of Commerce
End Sem Examination May-2024
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. Assume suitable data if necessary. Notations and symbols have their usual meaning.

Q.1	i.	Financial derivatives include- (a) Bond (b) Debenture (c) Forward (d) Stock	**1**
	ii.	On the expiration date of a futures contract, the price of the contract- (a) Always equals the purchase price of the contract (b) Always equals the average price over the life of the contract (c) Always equals the price of the underlying asset (d) Always equals the average of the purchase price and the price of underlying asset	**1**
	iii.	The derivatives products must be approved by- (a) SEBI (b) IRDAI (c) PFRDA (d) RBI	**1**
	iv.	Which Committee was constituted by SEBI for deciding about derivatives trading? (a) Rahul Gupta (b) L.C. Gupta (c) Raghu Ram Rajan (d) Vimal Jalan	**1**
	v.	A long contract requires that the investor- (a) Sell securities in the future (b) Buy securities in the future (c) Hedge in the future (d) Close out his position in the future	**1**
	vi.	Which contract is a customized contract between two parties to buy or sell an asset at a specified price on a future date? (a) Forward contract (b) Future contract (c) Spot contract (d) Far in contract	**1**

vii. In an option contract the difference between the cash market spot price and the strike price is known as- **1**

(a) Intrinsic value (b) Time value
(c) Future value (d) Forward value

viii. Which derivatives strategy involves buying a longer-dated contract to sell a shorter-dated contract? **1**

(a) Calendar spread (b) Bull call
(c) Diagonal spread (d) Strip

ix. The Swaps that are classified as long-term contracts are- **1**

(a) Currency swap (b) Notion swap
(c) Fixed swap (d) Floating swap

x. An interest rate swap usually involves- **1**

(a) Swapping debt maturities
(b) Swapping fixed interest rate payments for floating interest rate payments
(c) Swapping interest rate tax liabilities
(d) Swapping debt principal payments

Q.2 i. Define financial derivative. **2**
ii. Explain the various types and uses of financial derivative. **8**
OR iii. Briefly discuss the origin of derivatives in India also explain the current trends in Indian financial derivative market. **8**

Q.3 i. Discuss the various regulations set by SEBI for clearing & settlements of trade. **4**
ii. Briefly explain the SEBI Act 1992. **6**
OR iii. Discuss the various recommendations of L.C. Gupta committee. **6**

Q.4 i. Define forward price. **2**
ii. Explain any four features of forward & future contract. **8**
OR iii. Differentiate between forward contract & future contract. **8**

Q.5 i. Explain the term put call parity. **4**
ii. What is an option contract? Explain the types of options with suitable example. **6**
OR iii. Explain strip, strap and straddle strategies in brief. **6**

Q.6 Write short note on any two:
i. Interest rate swap **5**
ii. Currency swap **5**
iii. Cross currency swap **5**

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Marking Scheme

Financial Derivatives(T) CM3EB07(T)

Q.1	i)	Financial derivatives include (a) Bond (b) Debenture (c) **Forward** (d) Stock	1
	ii)	On the expiration date of a futures contract, the price of the contract (a) Always equals the purchase price of the contract (b) Always equals the average price over the life of the contract. (c) **Always equals the price of the underlying asset**. (d) Always equals the average of the purchase price and the price of underlying asset.	1
	iii)	The derivatives products must be approved by (a) **SEBI** (b) IRDAI (c) PFRDA (d) RBI	1
	iv)	Which Committee was constituted by SEBI for deciding about derivatives trading. (a) Rahul Gupta (b) **L.C. Gupta** (c) Raghu Ram Rajan (d) Vimal Jalan	1
	v)	A long contract requires that the investor (a) sell securities in the future. (b) **buy securities in the future**. (c) hedge in the future. (d) close out his position in the future.	1
	vi)	Which contract is a customized contract between two parties to buy or sell an asset at a specified price on a future date (a) **Forward Contract** (b) Future Contract (c) Spot Contract (d) Far in contract	1
	vii)	In an option contract the difference between the cash market spot price and the strike price is known as (a)**Intrinsic Value** (b) time value (c)future value (d) forward value	1
	viii)	Which derivatives strategy involves buying a longer-dated contract to sell a shorter-dated contract. (a)**Calendar Spread** (b) Bull call (c) diagonal spread (d) strip	1
	ix)	The Swaps that are classified as long-term contracts are (a) **Currency swap** (b) Notion Swap (c) Fixed swap (d) Floating Swap	1
	x)	An interest rate swap usually involves (a) Swapping debt maturities (b) **Swapping fixed interest rate payments for floating interest rate payments**. (c) Swapping interest rate tax liabilities (d) Swapping debt principal payments	1
Q.2	i.	Define Financial Derivative? (2 MARKS)	2
	ii.	Explain the various types and uses of Financial Derivative? FOUR TYPES (1*4 MARKS) FOUR USES (1*4 MARKS)	8
OR	iii.	Briefly discuss the origin of derivatives in India also explain the current trends in Indian financial derivative market? ORIGIN OF DERIVATIVES (4 MARKS) CURRENT TRENDS IN INDIAN FINANCIAL DERIVATIVE MARKET (4 MARKS)	8
Q.3	i.	Discuss the various regulations set by SEBI for Clearing & Settlements of trade? FOUR REGULATIONS (1* 4 MARKS)	4
	ii.	Briefly explain the SEBI Act 1992? AS PER THE EXPLANATION (6 MARKS)	6
OR	iii.	Discuss the various recommendations of L.C. Gupta Committee? SIX RECOMMENDATIONS (1*6 MARKS)	6
Q.4	i.	Define Forward Price. (2 MARKS)	2
	ii.	Explain any four features of forward & future contract? FOUR FEATURES OF FORWARD CONTRACT (1*4 MARKS) FOUR FEATURES OF FUTURE CONTRACT (1*4 MARKS)	8
OR	iii.	Differentiate between forward contract & future contract? 8 DIFFRENCE (1*8 MARKS)	8
Q.5	i.	Explain the term put call parity? AS PER THE EXPLANATION (4 MARKS)	4
	ii.	What is an option contract? Explain the types of options with suitable example?	6

		OPTION CONTRACT	(2 MARKS)	
		TWO TYPES	(2*2=4 MARKS)	
OR	iii.	Explain Strip, Strap and Straddle strategies in brief/		**6**
		STRIP	(2 MARKS)	
		STRAP	(2 MARKS)	
		STRADDLE	(2 MARKS)	
Q.6		Short Note (Any two)		
	i.	Interest Rate Swap.		**5**
		AS PER THE EXPLANATION	(5 MARKS)	
	ii.	Currency Swap.		**5**
		AS PER THE EXPLANATION	(5 MARKS)	
	iii.	Cross currency Swap.		**5**
		AS PER THE EXPLANATION	(5 MARKS)	

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