

Financial Derivatives

Paper: FM – 404

Time: Three Hours

Max. Marks: 70

Note:- Attempt any FIVE questions in all. Question no. 1 is compulsory. All questions carry equal marks.

1. Answer each question in app. 80 words:
 - (a) Define the term 'derivative'.
 - (b) What is cross-hedging?
 - (c) Distinguish between spreader and speculator.
 - (d) Explain the term option premium.
 - (e) What is backwardation?
 - (f) Explain the term Mark-to-market.
 - (g) Explain the term swap dealer and broker.
2. Explain the major participants in derivative markets. Give trading mechanism of futures market in context to Indian market along with the procedure of settlement in detail.
3. Explain the important theories of futures pricing with suitable examples along with their limitations in brief.
4. Write notes on the following with imaginary data:
 - (a) Trading mechanism of Interest of Interest Rate swap contract
 - (b) Short term interest rate futures contract
5. Critically examine the Black-Scholes option pricing model with suitable example.
6. Explain the trading mechanism of stock option trading. What are important uses and limitations of option trading? Explain.
7. Explain the nature, features, evolution of financial derivatives market in India. Also explain in brief regulatory measures in this respect.
8. Write notes on the following:
 - (a) Option on stock indices
 - (b) Mechanism of hedging with futures