School of Finance and Commerce

Commerce

ETE - Jun 2023

Time : 3 Hours **Marks : 50**

Sem II - MBAF0802 - Financial Derivatives and Risk Management

Your answer should be specific to the question asked

Draw neat labeled diagrams wherever necessary

1.	Interpret the difference between American-style options and European-style options?	K2 CO2	(2)
2.	compare and contrast the difference between over-the-counter (OTC) derivatives and exchange-traded derivatives?	K1 CO1	(2)
3.	How does an interest rate swap help manage interest rate risk for the parties involved?	K2 CO2	(2)
4.	Demonstrate an interest rate swap mechanism.	K1 CO1	(2)
5.	Contrast the difference between forward contracts and futures contracts?	K1 CO1	(2)
6.	State and distinguish between a futures contract and an options contract? Provide examples to illustrate your answer.	K3 CO2	(5)
7.	Demonstrate the meaning by the term "in-the-money" in options trading? How does it differ from "out-of-the-money" and "at-the-money"? Support with numerical example.	K3 CO2	(5)
8.	Criticizing some common strategies employed in options trading, such as straddles, spreads, and strangles? Briefly describe each strategy and its objectives.	K4 CO2	(6)
9.	ABC LTD, wishes to borrow Rs 1000 crore for 5 years. It can borrow @14% Fixed or LIBOR+1.25% floating rate. There is another company small ltd. Which also requires the Same amount but because of lower credit rating can borrow either @15.75% Fixed or LIBOR+2% floating. However, because of existing debt portfolio, ABC wants to borrow at floating rate and small ltd. wants to borrow at fixed rate. If the savings is to be shared equally, is there a swap opportunity? Also find out the cash flows in monetary amounts.	K3 CO3	(8)
10.	Evaluate the value of Call option using Binomial Option Pricing Model, Market price of the share today is Rs 400, 1 year call option is available at an exercise price of Rs 440, Risk free rate of Interest is 10% p.a. The probable market price at the end of the year will be MP_1 = 360 and MP_2 = 480.	K5 CO5	(8)
11.	The Current market price of XYZ ltd share is Rs 140 and is expected to be declare dividend of Rs 10 after 10 days. What should be the price of two months futures, if the risk-free rate is 15%?	K4 CO5	(8)