PVP21

Code No: **21BA4T6FA**

II MBA - II Semester - Regular Examinations - JULY 2023

FINANCIAL DERIVATIVES

Duration: 3 Hours Max. Marks: 70

Note: 1. This question paper contains three Parts-A, Part-B and Part-C.
2. Part-A contains 8 short answer questions. Answer any **Five** Questions. Each Question carries 2 Marks.
3. Part-B contains 5 essay questions with an internal choice from each unit. Each Question carries 10 marks.
4. Part-C contains one Case Study for 10 Marks.
5. All parts of Question paper must be answered in one place

BL – Blooms Level CO – Course Outcome

PART - A

		BL	CO
1. a)	Point out features of derivatives.	L2	CO1
1. b)	List out the merits and demerits of derivatives.	L2	CO1
1. c)	Demonstrate the warrants.	L2	CO2
1. d)	Differentiate between call and put options.	L3	CO3
1. e)	What do you mean by hedging?	L1	CO3
1. f)	Summarize the basic of option strategies.	L2	CO4
1. g)	Briefly explain the types of options.	L2	CO4
1. h)	What are swaps?	L1	CO5

PART – B

			BL	CO	Max. Marks
UNIT – I					
2.	a)	Discuss the role of derivatives markets.	L3	CO1	5 M

	b)	What do you mean by future market and how is it different from option? Discuss about Interest rate futures and currency future with examples.	L3	CO1	5 M
OR					
3.	a)	Explain the structure of Forward and Future Markets.	L3	CO1	5 M
	b)	A stock has a spot price of $100. The riskless interest rate is 7% per year (compounded annually), and the expected dividend on the stock is $3, to be received a year from now. What should be the one-year futures price?	L4	CO1	5 M
UNIT – II					
4.	a)	Explain how option market works. Discuss the major hedging strategies in option market.	L4	CO2	5 M
	b)	Write about option and its types.	L2	CO2	5 M
OR					
5.	a)	Explain the structure of options market.	L4	CO2	5 M
	b)	Briefly discuss the trading mechanism of options.	L2	CO2	5 M
UNIT-III					
6.	a)	Discuss about advanced option strategies.	L2	CO3	5 M
	b)	A stock price is currently $60. It is known that at the end of two months it will be either $54 or $50. The risk-free interest rate is 12% per annum with continuous compounding. What is the value of a two-month European call option with a strike price of $48?	L4	CO3	5 M
OR					

7.	a)	Differentiate between call and put options. What are the rights and obligations of the holders of long and short positions in them?	L3	CO3	5 M
	b)	Consider a 5 year employee stock option on a non-dividend paying stock. The option can be exercised at any time after the end of the first year. Unlike a regular exchange traded call option, the employee stock option cannot be sold. What is the likely impact of this restriction on the early-exercise decision?	L4	CO3	5 M
		UNIT – IV			
8.	a)	Elucidate the principles of option pricing. Discuss about The Binomial Model of option pricing.	L4	CO4	5 M
	b)	What is the price of a European call option on a non-dividend -paying stock when the stock price is $52, the strike price is $60, the risk-free interest rate is 14% per annum, the volatility is 40% per annum, and the time to maturity is three months?	L4	CO4	5 M
		OR			
9.	a)	When first issued, a stock provides funds for a company. Is the same true of stock option? Discuss briefly.	L4	CO4	5 M
	b)	Strike price are both INR 400. The options last for 12 years and vests after 4 years. The company decides to value the options using an expected life of 5 years and volatility of 30% per year. The company does not pay any dividend and assume the risk free rate to be 4%. What will the company report as	L4	CO4	5 M

		an expense for the options on its income statement?			
UNIT – V					
10.	a)	Discuss the concepts and feature of swaps. What do you mean by credit risk in swaps?	L4	CO5	5 M
	b)	Define Swaps. Illustrate various types of swap?	L4	CO5	5 M
OR					
11.	a)	What are the major types of swaps? Explain.	L4	CO5	5 M
	b)	Explain about credit risk in swaps.	L4	CO5	5 M

PART –C

		BL	CO	Max. Marks
12.	A portfolio manager is concerned about the risk of a market downturn and decides to purchase put options on a stock. The portfolio manager purchases 10 put options on XYZ stock with a strike price of $100 and an expiration date in three months. The price of the stock is currently $110. Questions: i. Why did the portfolio manager purchase put options on XYZ stock? ii. What is the maximum amount of money the portfolio manager could lose from the options contract? iii. What is the breakeven price of the stock for the portfolio manager?	L4	CO4	10 M