23701540

QP CODE: 23701540

Reg No : ....

Name : ....

M.B.A. DEGREE EXAMINATION, NOVEMBER 2023

Third Semester

Faculty of Management Science

ELECTIVE - MB800302 - FINANCIAL DERIVATIVES AND RISK MANAGEMENT

2019 Admission Onwards

AC0462B0

Time: 3 Hours — Maximum Marks: 60

Part A

*Answer any **five** questions. Each question carries **2** marks.*

1. Write a short note on derivatives.
2. Write a note on over the counter market
3. What is meant by IPO?
4. What is the meaning of a trader in stock market?
5. What is barrier option?
6. What are CAPS?
7. What do you mean by unsystematic risk?

(5×2 = 10 Marks)

Part B

*Answer any **five** questions. Each question carries **6** marks.*

8. Describe the characteristics and settlement procedure of futures contract.
9. “Forward contracts are zero-sum games”. Explain. Also give the difference between the delivery price and the forward price.
10. Describe the payoff from a portfolio consisting of a floating lookback call and a floating lookback put with the same maturity.
11. Future contract as hedging tools and help in protecting the risks associated with uncertainities in exchanges, Explain
12. What is meant by LIBOR and LIBID? Which is higher?

13. Explain the steps in risk management process.

14. Based on the traders decision to buy or sell futures contract, Explain the terms short hedge, long hedge, cross hedge and hedge ratio.

(5×6 = 30 Marks)

Part C

*Answer any **two** questions. Each question carries **10** marks.*

Question number 17 is compulsory .

15. Explain the difference between a Markov and a non-Markov model of the short rate

16. Consider a two-month call futures option with a strike price of 40 when the risk-free interest rate is 10% per annum. The current futures price is 47. What is a lower bound for the value of the futures option if it is (a) European and (b) American?

Compulsory Question

17. Calculate the price of a six-month European put option on the spot value of the S&P 500. The six-month forward price of the index is 1,400, the strike price is 1,450, the risk-free rate is 5%, and the volatility of the index is 15%.

(2×10 = 20 Marks)