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Reg. No.....

Name.....

M.Com. DEGREE (C.S.S.) EXAMINATION, NOVEMBER 2021

Fourth Semester

Faculty of Commerce

Elective—Finance

FM04E02—FINANCIAL MARKETS AND DERIVATIVES

(2012—2018 Admissions—Supplementary/Mercy Chance)

Time : Three Hours

Maximum Weight : 30

Section A

*Answer any **five** questions.
Each question carries a weight of 1.*

1. What is Arbitrage ?
2. Define LEAPS.
3. What are Forward Contracts ?
4. What is exchange Traded Derivative ?
5. What is meant by put option ?
6. What is put ratio spread ?
7. What are the features of options on stock indices ?
8. Define currency SWAP ?

(5 × 1 = 5)

Section B

*Answer any **five** questions.
Each question carries a weight of 2.*

9. What are SWAPS ? Describe the common type of SWAP.
10. Compare and contrast the Black-Scholes model with Binominal model.
11. Explain pricing in interest rate SWAP.
12. Explain time value and intrinsic value of option contract.

Turn over





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13. Distinguish between long straddle and short straddle.
14. State the cash and carry model of future pricing.
15. The spot price of gold (100 gms) on 1.9.14 was Rs. 19112. At NCDEX the future price (on 1.9.14) of gold (100 gms) futures contract expiring in Nov.2014 was Rs. 19,375. The interest rate prevailing in the money market was 10% p.a. Whether there was any opportunity for arbitrage. If so, describe the steps of such arbitrage.
16. The current price of a stock is Rs. 90 per share. The risk free interest rate is 8% annualised continuous compounding. If the volatility of the stock is 23% p.a. What is the price of the Rs. 80 call option expiring in 6 months according to Black and Scholes model.

(5 × 2 = 10)

Section C

*Answer any **three** questions.*

Each question carries a weight of 5.

17. Consider a stock which is currently trading at Rs. 100 and in exactly one year the stock price will be either Rs. 80 or Rs. 120. We do not have any priori probabilities. If the interest rate is 5%, what is the price of a European call option on this stock with a strike price of Rs. 110 and expiry in one years time ? Use Binomial option pricing model for the calculation.
18. Explain the different types of derivatives along with their futures.
19. Discuss the various strategies of hedging with stock index futures.
20. Discuss fundamental option strategies with suitable examples.
21. Discuss the futures of option market in NSE and BSE.
22. Current market price of the shares of A Limited is Rs. 100 and an option with exercise price of Rs. 115 for a call option with twelve months to expiration. It is expected that spot price of these shares at the end of three months from now might increase by 60% of the current spot price or if might decline by 20% the current spot price. If risk-free rate is 10% p.a. Find out the price of the call option.

(3 × 5 = 15)

