

M.Com. DEGREE (CSS) EXAMINATION, JULY 2014**Fourth Semester**

Faculty of Commerce

Elective—Finance

FM 04 E02—FINANCIAL MARKETS AND DERIVATIVES

(2012 Admissions—Regular)

Time : Three Hours

Maximum Weight : 30

Section A*Answer any five questions.**Weight 1 each.*

1. Define Swapation.
2. What are interest rate futures ?
3. What are the functions of DFHI ?
4. How do you calculate minimum value of a put option ?
5. What is making to market ?
6. What is exercise or Strike price in option trading ?
7. What do you understand by LIBOR ?
8. State the difference between Primary market and Secondary market.

(5 × 1 = 5)

Section B*Answer any five questions.**Weight 2 each.*

9. What are exchange traded derivatives ?
10. What are SWAPS ? Describe the Common types of SWAPS.
11. State the binomial option price model. What are its assumptions and limitations ?
12. Briefly explain the option Strategies for Speculation.
13. Define stock index futures and what are its uses ?
14. Derivatives are effective Risk management tool. Comment on this statement.

Turn over

15. A six month gold future of contract of 100 gm. Assume that the Spot price is Rs. 2,500 per gram and that it cost Rs. 10 per gram for the six monthly period and the cost is incurred at the end of the period. If the risk less interest rate is 12 % p.a. compounded continuously. Calculate the future price.
16. A one year long forward contract on a non-dividend paying stock is entered into when the stock price is Rs. 420 and the risk free interest rate is 10 % p.a. with continuous compounding. What should be the forward price of the contract ? Six months later the price of the stock is Rs. 450 and the risk free interest rate is 8 %. What should be the forward price of the contract ?

(5 × 2 = 10)

Section C

Answer any **three** questions.

Weight 5 each.

17. Describe the regulatory frame work of derivative trading in India.
18. Discuss various types of SWAPS and their features.
19. What do you mean by Options ? Explain the prospectus of profit or loss from option transaction with suitable examples.
20. Current price of a stock is Rs. 90 per share. The risk free rate of interest 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 Scholar model ?
21. Current market price of the shares of A Ltd. is Rs. 100 and an option with exercise price of Rs. 115 for a call option with 12 months to expiration. It is expected that spot price of these shares at the end of three months from now might decline by 20 % of the current spot price. If the risk free interest is 10 % p.a. find out the price of call option.
22. Explain the Components role and functions of Indian Financial Market.

(3 × 5 = 15)