

M.Com. DEGREE (CSS) EXAMINATION, JUNE 2016**Fourth Semester****Faculty of Commerce****Elective – Finance****FM 04E 02 – FINANCIAL MARKETS AND DERIVATIVES****[2012 Admissions – Regular]****Time : Three Hours****Maximum Weight : 30****Part A***Answer any five questions.**Weight 1 each.*

1. What is hedging?
2. What is median quarter sigma rule?
3. State the expectancy theory of future pricing.
4. Define value at risk. What is its significance?
5. What is meant by short position in the put option?
6. Distinguish between hedgers and speculations in the derivative market.
7. What is put-call parity? How is it used in calculating the put option price?
8. What are non-generic swap?

(5 × 1 = 5)**Part B***Answer any five questions.**Weight 2 each.*

9. Define SWAP contract. What are the parties involved in a SWAP?
10. Explain single binomial option pricing model.
11. Discuss the role and functions in the derivative market.
12. What are the merits and demerits of OCT derivatives?
13. What are the applications of interest rate futures?
14. A 6 months gold futures 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 6 monthly period to store gold and that the cost is incurred at the end of the period. Interest rate is 12% p.a. compounded continuously. What should be future price?

Turn over

15. The spot price of Jute (1 ton) at Mumbai on 1.9.2014 was Rs. 20,663. The future price at NMCE on the same date for the jute (1 ton) futures contract were as shown below : Contract expiring in November 2014 : Rs. 21,048 ; Contract expiring in February 2015 : Rs. 21,570. Examine whether the futures price were consistent with the cost-of-carry pricing model, of the annual carrying charge is assumed to be 7.5% of the commodity cost.
16. What is reverse cash and carry arbitrage?

(5 × 2 = 10)

Part C

Answer any three questions.

Weight 2 each.

17. How would you convert a floating rate liability into a fixed rate liability using SWAP? Draw a diagram.
18. Distinguish between single period and multi period binomial option valuation model.
19. Explain Black-Scholes pricing model.
20. Explain the role of SEBI in regulating the Indian Financial Markets.
21. Discuss various strategies of hedging with stock index futures.
22. Discuss the regulatory frame work of derivative trading in India.

(3 × 5 = 15)