17U662 (Pages: 2) Name: ……………..……….

Reg. No…………….………

SIXTH SEMESTER B.Com. DEGREE EXAMINATION, APRIL 2020

(CUCBCSS-UG)

CC17U BC6 B14 - FINANCIAL DERIVATIVES

Commerce – Core Course

(2017 Admission - Regular)

Time: Three Hours Maximum: 80 Marks

Part A

Answer ***all*** questions. Each question carries 1 mark.

Choose the correct answer:

1. Which of the following is a reason to hedge a portfolio?

   (a) To increase the probability of gains

   (b) To limit exposure to risk

   (c) To profit from capital gains when interest rates fall.

   (d) All of the above

2. Hedging risk for a long position is accomplished by

   (a) taking another long position

   (b) taking a short position

   (c) taking additional long and short positions in equal amounts.

   (d) taking a neutral position

3. A contract that requires the investor to buy securities on a future date is called a

   (a) short contract (b) long contract (c) hedge (d) cross

4. Forward contracts are risky because they

   (a) are subject to lack of liquidity (b) are subject to default risk.

   (c) hedge a portfolio (d) both (a) and (b) are true

5. The advantage of forward contracts over future contracts is that they

   (a) are standardized (b) have lower default risk

   (c) are more liquid (d) none of the above

Fill in the blanks:

6. Elimination of riskless profit opportunities in the futures market is -------------
7. When a financial institution hedges the interest-rate risk for a specific asset, the hedge is called a -------------
8. The number of futures contracts outstanding is called -------------

9. The price specified on an option that the holder can buy or sell the underlying asset is called -------------
10. An option that can be exercised at any time up to maturity is called -------------

(10 x 1 = 10 Marks)

Part B

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

11. What do you mean by spread?
12. What is perfect hedge?
13. What is a European option?
14. Explain the meaning of the term 'long position'.
15. What do you mean by financial derivative?
16. How a strangle strategy works?
17. What do you mean by currency futures?
18. What is equity swap?
19. Who is a hedger?
20. What do you mean by the term 'swaptions'?

(8 x 2 = 16 Marks)

Part C

Answer any ***six*** questions. Each question carries 4 marks

21. Distinguish between call and put options using an illustrative example.
22. Write down the features of swaps.
23. Discuss the growth and development of derivatives in Indian context
24. Describe the futures trading mechanism.
25. Write the differences between spot contract and forward contract using examples.
26. State the differences between cash market and derivative market
27. Write a note on major players in the derivative market.
28. Explain the factors influencing forward price determination

(6 x 4 = 24 Marks)

Part D

Answer any ***two*** questions. Each question carries 15 marks.

29. What are futures? Write down different types of futures contracts with suitable examples.
30. Discuss in detail about trading strategies in Option Contract
31. Which are the stock market derivatives available in India? Also write about other derivatives traded in India.

(2 x 15 = 30 Marks)

****