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Name.....

Reg No.....

FOURTH SEMESTER M.Com. DEGREE EXAMINATION, MARCH 2017

(CUCSS - PG)

CC15P MC4 C14 - FINANCIAL DERIVATIVES AND RISK MANAGEMENT

(2015 Admission)

Time: 3 Hours

Maximum Weights: 36

Section A

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

1. Differentiate between forwards and futures
2. Define the term 'Idiosyncratic Risk.
3. What is meant by 'portfolio immunization'?
4. Who are the prime users of derivatives in a stock market?
5. State any four assumptions underlying the Black Scholes pricing model.
6. Mention the significance of Hedge ratio?

(6x1=6 weightage)

Section B.

Answer any *six* questions. Each question carries *3 weights*

7. Explain briefly the major sources of risk to a business firm.
8. Elucidate the relevance of derivative instruments in modern finance. How one can find its utility in this globalizing world.
9. Distinguish between 'basis swap and coupon swap'. Evaluate the key determinants of call option.
10. Discuss the importance and implications of swap contracts in currency market.
11. Describe the put-call parity theorem.
12. Write a note on the evolution of derivative trading in India.
13. Examine the issues in the regulation of derivative activities in India and bring out the role of SEBI in this regard.
14. The following data is available for Universal Products Ltd, a company that is not expected to pay dividend for a year:

$S_0 = 120$; $E = 110$; $r = 0.14$; $t = 1$; $\sigma = 0.4$

Find out the value of call option as per the Black-Scholes model.

(6x3=18 weightage)

Section C

Answer any *two* questions. Each question carries *6 weights*

- 15. How does 'risk' differentiate from 'exposure'? Describe the generic alternatives available for the management of financial risk and corporate exposures.
- 16. Explain, with suitable examples, the different option based strategies available for trading in derivative markets.
- 17. a) Bring out the differences in variables in the Binomial model with those in the Black Scholes model.
b) Using the binomial pricing model, calculate the hedge ratio and the value of call option with one year to expiry from the following data. current share price Rs. 100; exercise price Rs. 120; value expected at expiration either Rs. 80 or Rs. 160; risk free rate of return 10%.

(2 x6=12 weightage)

(6x1=6 weightage)

Section B

Answer any *six* questions. Each question carries *3 weights*

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