

*January*

Subject Code—5887

**M.B.A. EXAMINATION**

(Fourth Semester)

(Re-appear)

(2 Years—New Scheme)

FM-407

**FINANCIAL DERIVATIVES**

*Time : 3 Hours*

*Maximum Marks : 100*

**Note :** Attempt any *Five* questions. All questions carry equal marks.

1. (a) What is difference between a long futures position and a short futures and position ?
- (b) Explain carefully the difference between :
  - (i) hedging
  - (ii) speculation
  - (iii) arbitrage.

**P.T.O.**

2. (a) What are the most important aspects of the design of a new futures contract ?  
(b) Explain how margins protect investors against possibility of default.
3. Explain briefly the following terms :  
(a) Currency swap  
(b) Cash settlement  
(c) Clearing margin  
(d) Premium  
(e) Commodity Swap  
(f) Cost of carry  
(g) Coupon  
(h) European option  
(i) Exercise price  
(j) Plain vanilla.
4. Discuss the procedure for calculating the value of a call option as per the Black and Scholes model.

5. Consider the following data :  
 $S = 60$ ,  $u = 1.4$ ,  $d = 0.8$   
 $E = 50$ ,  $r = 0.12$ ,  $R = 1.12$ .  
What is the value of the call option ?

6. (a) What are the key differences between forwards and futures ?  
(b) Explain the 'marking-to-market' feature with example.
7. (a) Illustrate the payoff and profit function of a protective put.  
(b) What is covered call strategy ? Graphically show its payoff and profit function.  
(c) What is a long straddle ? Show its payoff and profit function.
8. Write a comprehensive note on derivatives market in India.