Roll No. ....
200 -/2/5/-

HV-655

January 2017

M. B. A. (Financial Administration) Examination

IIIrd Semester

DERIVATIVES AND RISK MANAGEMENT

Time 3 Hours]

[Max. Marks 90

Note : Attempt any three questions from Section A. Section B is compulsory. Each question in Section A carries 22 marks. Section B is compulsory.

Section A

1. Discuss the various types of contracts for derivative transactions with justified examples for each category.
2. What are the risk associated with future and forward contract, when trading of stock and interest rate. ? Discuss.
3. Discuss the hedging by using future contracts. Also describe convergence clearing process.
4. What is an option contract ? Discuss the trading strategies in option contracts.
5. Write short notes on the following :
   (a) Over the Counter Exchange.
   (b) Interest Rate and Currency Rate Swaps.

Section B

6. An investor has purchased a 4-month call option on the equity share of Birla company for Rs. 5. It has a present market price per share of Rs. 112, exercise price of Rs. 120. At the end of 4 months, the investor expects the price of share to be in the following range of Rs. 90 to 170 with varying probabilities.

Expected Price	:	Rs. 100	Rs. 110	Rs. 125	Rs. 150	Rs. 170
Probability	:	0.10	0.25	0.30	0.25	0.10

From the above, you are required to answer the following :

(1) What is the expected value of share price 4-months hence ? What is the value of call option at its expiration (C_1) if the expected value of share price prevails at the end of 4 months ?

(2) Determine the expected value of option price at maturity, assuming that the call option is held to this time. Why does it differ from the option value determined in part (*i*) ?

(3) What is the theoretical value of the option, at the beginning of 4-month period ? Give comments on the market value of the call option in relation to its theoretical value.
