M.Com DEGREE (CSS) EXAMINATION, JUNE 2023

Fourth Semester

Elective - CM800401 - DERIVATIVES AND RISK MANAGEMENT

M.Com FINANCE AND TAXATION, M.Com FINANCE AND TAXATION (SF)

2019 ADMISSION ONWARDS

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Weightage: 30

Time: 3 Hours

Part A (Short Answer Questions)

*Answer any **eight** questions.*

*Weight **1** each.*

1. If you deposit Rs.1,00,000 at 10.25% continuously compounded, what will be the future value after 5 years.

2. What is meant by settlement risk in currency market?

3. What do you know about spot rate and forward rate?

4. What is forward discount?

5. Distinguish between long hedges and short hedges.

6. Who are the traders allowed in F&O segments of exchanges?

7. Write a note on MCX.

8. What are Tunnels in Options trading?

9. Differentiate between long sraddle and short straddle strategies.

10. What is the role of Swap facilitator in a Swap transaction?

(8×1=8 weightage)

Part B (Short Essay/Problems)

*Answer any **six** questions.*

*Weight **2** each.*

11. Discuss the limitations of derivatives.

12. Explain Value at Risk and different methods of estimation of Value at Risk.

13. What are the classifications of forward contracts ?

14. Suppose the spot price of Gold (10gms) is Rs.40,000 and the interest rate of borrowing and lending is 10% p.a. If the transaction cost is 3% of transaction amount, calculate the futures price of 6 months Gold futures in perfect market and imperfect market.

15. Explain the concept of Normal Backwardation model.

16. Shares of TCS are currently selling at Rs.3,303. An investor buys a 3 months call option with an exercise price of Rs.3,320 for a premium of Rs. 43. Prepare a pay-off table showing the net profit/loss made by the option holder as well as the writer, if on the expiration date, TCS is selling at Rs.3,300, Rs. 3,310, Rs.3,320, Rs.3,350, Rs.3,380, Rs.3,400 and Rs.3,450.

17. Discuss the put-call parity relationship.

18. Explain different types of Interest Rate Swaps.

(6×2=12 weightage)

Part C (Essay Type Questions)

Answer any **two** questions.

Weight **5** each.

19. Give a brief description about derivatives trading in India. Discuss the economic benefits of derivatives.

20. Discuss the advantages and disadvantages of forward contracts.

21. Distinguish between stock futures and index futures. Discuss the various strategies for hedging with stock index futures.

22. The current market price of a stock of JK Ltd. is Rs.250. The stock has a volatility of 40%. The risk-free interest rate is 10% per annum. Using the binomial tree with monthly intervals .calculate
    (a) the three possible prices for the stock after two periods.
    (b)The value of a European call option on the stock with an exercise price of Rs.260.

(2×5=10 weightage)