PGDM FOURTH SEMESTER EXAMINATION - 2016

PAPER BM4.07(F) : RISK MANAGEMENT & DERIVATIVES

Time : 3 hours **Max. Marks : 75**

Note : i) Answer ALL the questions.
ii) Do as directed in each of the Sections A, B and C.
iii) The figures in the right-hand margin indicate marks composition.

SECTION-A

1. Answer any FIVE of the following in about 200 words each : (5 x 3 = 15)

   (a) Construct future payoffs (both long & short) with the help of a suitable example.

   (b) Call option is different from Put Option. Discuss.

   (c) What are the tools available for managing risk?

   (d) Discuss the concept of In the money, At the money & Out of the money keeping in mind the behaviour of call option buyer with the help of suitable example.

   (e) Discuss the role of Forward Market Commission.

   (f) Options are less risky than Futures. Comment.

   (g) Discuss the functions of Derivatives.

SECTION-B

2. Attempt any TWO of the following : (2 x 7.5 = 15)

   (a) Discuss Risk Management Framework.

   (b) Discuss Black Scholes Model along with its assumption and factors affecting the option premium.

   (c) Differentiate between Futures and Options.

   (d) What are commodity futures? Describe the uses of commodity futures.

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3. Write explanatory notes on any *two* of the following : (2 x 5 =10)

(a) Future Vs. Forward

(b) National Commodity and Derivative Exchange Ltd. (NCDEX)

(c) Cost to Carry Model

(d) Relationship between Open Interest and Volume (with suitable example).

SECTION – C

4. Attempt any two of the following : (2 x 10 = 20)

(a) Trader A wants to sell 20 contracts of August Series at Rs. 4,500 and Trader B wants to sell 17 contracts of September series at Rs. 4,550. Lot size is 50 for both these contracts. The initial margin is fixed at 6%. How much initial margin is required to be collected from both these investors (sum of initial margins of A & B) by the broker?

(b) What will be the forward price of share, if cash price is Rs. 750/-. Forward contract maturity is 6 months from date and market interest rate is 12%.

(c) Mr. 'X' sold xyz future contract (Contract Multiplier 125) at 3800 and Mr. 'y' has created the opposite position. What will be the profit / loss for Mr. 'x' and 'y' if the contract is trading at 3550.

5. At NSE following were the prices of 1 – Month Call and Put options on its index Nifty on 15th March, 2016. When Nifty was at 7400.

Strike Price	Premium	
	Call Option	Put Option
7300	165	75
7400	125	95
7500	100	125

Construct a long straddle and strangle. Find out its cost, payoff, break-even point and maximum profit and loss.

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