Seat No:_____________ **Enrollment No:_____________**

PARUL UNIVERSITY
FACULTY OF MANAGEMENT
MBA Winter 2019-20 Examination

Semester: 4 **Date: 11/12/2019**
Subject Code: 06201251 **Time: 2:00 pm to 4:30pm**
Subject Name: Financial Derivatives **Total Marks: 60**

Instructions
1. All questions are compulsory.
2. Figures to the right indicate full marks.
3. Make suitable assumptions wherever necessary.
4. Start new question on new page.

Q.1 Do as Directed.

A).Multiple choice type questions/Fill in the blanks. (Each of 1 mark) **(05)**

1. Type of unit which guarantees that all buying and selling will be made by traders of exchange is called

a) Clearing house c) guarantee house
b) trading house d) Stock Exchange

2. Which of the following does the most to reduce default risk for futures contracts?

a) Flexible delivery arrangements. c) Credit checks for both buyers and sellers.
b) Marking to market. d) High liquidity.

3. A put option has a strike price of Rs. 35. The price of the underlying stock is currently Rs. 42. The put is

a) At the money. c) Out of the money.
b) In the money. d) Near the money.

4. Which of the following is potentially obligated to sell an asset at a predetermined price?

a) A put buyer c) A Call buyer
b) A put writer d) A call writer.

5. What is the intrinsic value of a Call option having current price of Rs. 100, strike price Rs. 97.5 and Market rate of interest is 2.5 per cent per annum.

a) Negative c) Zero
b) Positive d) None of the above

B).Define the following. (Each of 1 mark) **(05)**
1. Derivatives
2. OTC
3. Arbitrage
4. Credit Derivatives
5. Swap

C).Direct questions. (Each of 1 mark) **(05)**
1. Hedge
2. Intrinsic Value of Option
3. Time Value of Option
4. ATM
5. Index Option

Q.2 Answer the following questions.

A). What are the differences between exchange traded and Over the Counter derivatives? **(07)**

B). Following data as on 15th October 2019 is available. Current price of TCS Ltd. = Rs 2500 **(08)**
1 – month futures on TCS Ltd. maturing 14th September 2019 = Rs 2568, Risk free Interest Rate = 12%

1. Find the value of one future contract of TCS Ltd. (one future contract on TCS Ltd includes 50 shares of TCS Ltd.)
2. Find the Fair Value of the future contract.
3. Is there any opportunity to make profit from the prices prevailed in the market? If yes, how?

Q.3 Answer the following questions.

A). What do you understand by Perfect Hedge and Imperfect Hedge? Discuss the key factors responsible for imperfect hedge. **(07)**

B). Define Option Contract. Explain the different factors that affect the price of an option. **(08)**

Q.4 Attempt any two questions. **(Each of 7.5 mark)** **(15)**

1. A 3 month Put Option on the Tata Tea with strike price of Rs 550 is selling for Rs 60. The share of Tata Tea is presently trading at Rs 500 in the market. Calculate the following:

a. What is the Intrinsic Value of this Put Option?
b. What is the Time Value of this Put Option? Give Comments.
c. 3. Find out Put Option breakeven price.

2. Explain Moneyness of the option - ITM, ATM and OTM

3. Discuss Butterfly Strategy.

4. Write a brief note on Greek Letters.