Seat No:____________ Enrollment No:_______________

PARUL UNIVERSITY

FACULTY OF COMMERCE

B.Com.(Hons) Summer 2018 – 19 Examination

Semester: 5 **Date: 02/05/2019**
Subject Code: 16101303 **Time: 10.30 am to 1.00 pm**
Subject Name: Basics of Risk Management **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. (Each of one mark) **(06)**

1. Financial Derivatives are mainly used for:-
   a) Speculative activities b) Creating more risk
   c) Hedging risk d) Earning income
2. Forward contact are usually available for a period upto:
   a) 12 moths b) 24 months
   c) 36 months d) None of the above
3. The series of future contract expires on ________________.
   a) Last Friday of month b) Last Tuesday of month
   c) Last Thursday of month d) Last Monday of the month
4. The instruments that are marked to market are
   a) Forward b) Futures
   c) Swap d) Options
5. 100% hedge is also known as:
   a) Complete hedge b) Risk minimizing hedge
   c) None of the above d) Both (a) & (b)
6. Futures valuation model is known as:
   a) Cost to cash model b) Cost of carry model
   c) Carrying cost model d) Cash of carrying model

B) Answer the following. (Each of one mark) **(06)**

1. What is variation margin?
2. What are commodity futures?
3. What is double option?
4. Who is speculator?
5. What are swaps?
6. What are options?

Q.2 Answer the following. (Each of 04 mark) **(12)**

1. What are the features of futures contract?
2. Interpret the following quotes that you read in business standard in October 2007:

Contract	Open	High	Low	Close	Open Interest	Traded Quantity	Number of Contracts
Nifty Nov 07 FUT	5,535	5,729	5,493	5,712	316 L	323 L	6,45,875
RIL Jan 08 FUT	2,662	2,727	2,684	2,726	3 K	900	6

3. The share of TATA Company is trading at Rs.109. Mr.H purchase a call option on TATA's share with a maturity of 6 months at a premium of Rs.7 for an exercise price of Rs.105. How much profit or loss will Mr. P make if on date of maturity of the option the actual share price turns out to be Rs.100, Rs.105, Rs.110, and Rs.120?

Q.3 Answer the following. (Any Three) **(18)**

1. What are features of forward contract?
2. What are the advantages of forward contract?
3. Assume futures contract size to be 200, futures price to 2400 and that the investor has purchased futures. Following are the fluctuations over a 6 day period:

   Day: 1: 2420 2: 2430 3: 2410 4: 2310 5: 2320 6: 2240

   Initial margin is 30% and maintenance margin is 28%. Calculate Initial Margin Maintenance Margin, Variation Margin and MTM Margin.

4. Spot price of a share is Rs.1,455. Annual dividend of 25% is payable. If the borrowing rate is 15% p.a. and risk free rate of return is 8% p.a., determine the fair future price for a 3 months contract if face value per share is Rs.100. Use simple interest rate for valuation. If futures are available at Rs.1,400 , what should be the strategy?
   If 25% is dividend yield , what is the new fair price and strategy?

Q.4 Answer the following. (Any two) **(18)**

1. Fill up the empty boxes in the following table.

Strike Price	Spot Price	Type of option	Premium paid	Will you exercise the options?	Nature of option	Intrinsic Value	Time Value
325	340	Put	20				
300	350	Call	60				
390	350	Call	2				
1075	1035	Put	60				
360	350	Call	10				
2650	2645	Put	15				
315	350	Call	40				
70	80	Put	15				

2. What are the features of option contract?
3. List the types of options and explain.