

**PARUL UNIVERSITY**  
**FACULTY OF COMMERCE**  
**B.Com.(Hons) Winter 2018 – 19 Examination**

**Semester: 5**  
**Subject Code: 16101303**  
**Subject Name: Basics of Risk Management**

**Date: 03/11/2018**  
**Time: 10.30 am to 1.00 pm**  
**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.****(06)**

1. The series of future contract expires on \_\_\_\_\_.  
 a) First Thursday of the month  
 b) Last Friday of the month  
 c) Last Thursday of the month  
 d) First Friday of the month
2. If shares are sold in cash market and the share price rises which hedge strategy is to be used?  
 a) Hold position  
 b) Sell futures  
 c) Buy Futures  
 d) Trade Futures
3. Beta is also referred as \_\_\_\_\_.  
 a) Hedge ratio  
 b) Debt-equity ratio  
 c) Profit ratio  
 d) None of the above
4. The instruments that are market to market are \_\_\_\_\_.  
 a) Futures  
 b) Forward  
 c) Options  
 d) Swaps
5. A combination of forwards by two counter parties with opposite but matching needs is called?  
 a) Swap  
 b) Future  
 c) Option  
 d) Forward
6. Financial derivatives are mainly used for:  
 a) Speculative activities  
 b) Creating more risks  
 c) Hedging risks  
 d) Earning income

**B) Answer the following:****(06)**

1. What is put option?
2. What is double option?
3. Explain Speculator.
4. Who are hedgers?
5. What is OTC trade?
6. What are options?

**Q.2 Answer the following.****(12)**

1. What are features of options?
2. What are inhibiting factors of derivatives?
3. Mr.Hardik purchased a put option on Reliance's share with a maturity of 7 months at a premium of Rs.9 for an exercise price of Rs.30. 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.18, Rs.25, Rs.28, Rs.30 and Rs.40.

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

1. State features of forward contract
2. State points of difference between futures and forwards.
3. Which positions on Index futures shall provide complete hedge for following transactions:  
 (a) The share price of East Ltd. is going to rise. Investor has Long position on the cash market of Rs.50 lakhs. Beta of the company is 1.25.  
 (b) The share price of West Ltd. is going to fall. Investor has Short position on the cash market of Rs.25 lakhs. Beta of the company is 0.9.

(c) The share price of North Ltd. shall stagnate. Investor has Short position on the cash market of Rs.20 lakhs. Beta of the company is 0.75.

4. The BSE Sensex is currently at 19,100 levels. The risk free rate is 10% p.a., while the annualized dividend yield is 3%. Futures contracts are available in lots of 15 at 19,400. Using simple interest rate for valuation, you are requested to calculate the fair price of three-month index futures, adequate strategy and profit or loss made if the actual futures index value after three-months is either 19,900 or 18,400.

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

(18)

1. What are the features of swap?
2. Fill up the empty boxes in the following table.

Strike Price	Spot Price	Type of option	Premium paid	Nature of option	Intrinsic Value	Time Value
1000	1050	Call	55			
375	350	Put	62			
315	350	Put	12			
590	540	Call	5			
345	350	Put	24			
715	770	Call	75			
390	350	Put	65			
800	800	Call	8			

3. What are the features of futures contract?