Seat No:____________ Enrollment No:_______________

PARUL UNIVERSITY

FACULTY OF COMMERCE

B.Com.(Hons) Winter 2019 – 20 Examination

Semester: 5 **Date: 29/11/2019**
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 put option?
2. Explain: Speculator
3. What is double option?
4. Who is hedger?
5. What is OTC trade?
6. What are options?

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

1. What are the features of forward 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. Mr.Hardik purchase 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. What are features of future 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. 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.

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**
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				

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