Seat No: _____________ Enrollment No: ___________

PARUL UNIVERSITY

FACULTY OF COMMERCE

M.Com. (Hons.) Summer 2017-18 Examination

Semester: 4 **Date: 10/05/2018**
Subject Code: 16201252 **Time: 10:30 am to 1:00 pm**
Subject Name: Risk Management **Total Marks: 60**

Instructions:
1. Attempt all questions from each section
2. Figures to the right indicate full marks.
3. Make suitable assumptions wherever necessary.
4. Start new question on new page.

Q1. Do as directed:-

A) Answer the following Questions:- **(06)**

1. The world's largest derivatives exchange (by number of transactions) is __________.
   a. NSE
   b. BSE
   c. NASDAQ
   d. KOREA Exchange
2. If shares are purchased in cash market and the share price falls which hedge strategy is to be used?
   a. Buy Futures
   b. Hold position
   c, Sell Futures
   e. None of the above...
3. Option Holder is a person who _________ Option.
   a. Buy
   b. Sells
   c. Trades
   d. All of the Above
4. An Option that can be exercised only on the expiry date is _______ Option.
   a. Indian
   b. American
   c. European
   d. German
5. T-Bills Bonds have __________ maturity days.
   a. 90-92 days
   b. 182 days
   c. 365 days
   d. All of the above.
6. The ______ spread is a neutral strategy that is a combination of bull spread and bears spread.
   a. Calendar
   b. Straddle
   c. Strangle
   d. Butterfly

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

1. What are Option Contracts?
2. What are Future Contracts?
3. Explain the option strategy Straddles.
4. Who is speculator?
5. What is clearing house?
6. What is cash settlement?

Q.2. Answer the following Questions:- **(12)**

1. Explain features of Forward Contract.
2. 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?
3. State the assumptions of Black Scholes Model.

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

1. Equity share of PQR ltd is presently quoted at Rs.320. MPS after 6 months has following probability distribution:

MPS(Rs.)	180	260	280	320	400
Pi	0.1	0.2	0.5	0.1	0.1

   A put option with a strike price of Rs.300 can be written. You are requested to find out expected value of option at maturity (i.e. 6 Months).
2. Explain the Benefits of Interest Rate Swap.
3. For a stock currently quoted at Rs.70, a 3-month futures contract is available. Its face value is Rs.10 and the continuously compounded risk free rate is 8%. Determine the theoretical price of the futures contact based on following scenarios:-

   (a) No dividend shall be paid by the company.
   (b) Dividend of Rs.1.5 shall be paid as on today.
   (c) Dividend of Rs.1.5 shall be paid in 1 month time.

   Given: $e^{0.02} = 1.0210$ $e^{-0.0067} = 0.9933$

4. What are the types of Foreign Exchange Rate Risk?

Q.4. Answere the following questions:- (Any 2) (18)

1. 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**
425	450	Put	10			
515	550	Call	40			
645	615	Call	25			
490	350	Put	160			
500	500	Call	5			
1000	1050	Put	20			
1200	1115	Call	25			
25	20	Put	7			

2. A mutual fund is holding following assets in Rs. Crores:

Investment in diversified equity shares	90.00
Cash and bank balance	10.00

Beta of the equity portfolio is 1.1. Index futures are selling at 4300 level. The fund manager apprehends that the index will fall at the most by 10%. How many index futures contracts he should short for perfect hedging? One Index futures contract consist 50 units.

Substantiate your answer assuming the fund manager's apprehension materializes.

3. Distinction between Currency Swap and Interest Rate Swap.