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EXECUTIVE MASTER OF BUSINESS ADMINISTRATION (EXMBA)

Term-End Examination

December, 2011

MCTE-090 : DERIVATIVES

Time : 3 hours *Maximum Marks : 100*

Note : *Attempt **any five** questions. **All** questions carry **equal** marks.*

1. In the light of increasing use of structured products and to ensure that customers understand the nature of the risk in these complex instruments, discuss the current regulatory framework and the growth of Indian forex and derivatives market.

2. Critically appraise the factors which determine the theoretical value of option highlighting any problem that may be encountered in incorporating them in the formal valuation model.

3. Using the put-call parity relationship, write the value of a call option as a function of the stock price, the risk-free bond, and the put option.

Now consider a stock price that is dramatically in excess of the exercise price, what happens to the value of put and a call as the stock price becomes extremely large relative to the exercise price ?

4. Distinguish between the commodity and financial derivatives. What are the recent salient features of the policy initiatives taken to develop the commodity future market in India ?

5. Explain the difference between hedging and speculation. Why does hedging an equity portfolio using stock index futures work best if the portfolio being hedged is similar to the underlying stock index of the futures contract ?

6. Distinguish between a warrant and call option. Identify the factors that influence the value of a warrant.

7. What is swaption ? Discuss the various precautions which can be taken to reduce swap risk ?

8. How does futures contract differ from a forward contract ? What is the economic rationale for the existence of futures market ?

9. Why should a company issue convertible securities instead of straight bonds or equity shares ? Under what conditions is a convertible security deemed attractive ?

10. "The changing nature of financial industry, especially as reflected in the financial derivatives market, provides a considerable opportunities for risk sharing or inter-temporal smothering." What actions can be taken to control or plan for these risks ? Can value be produced through risk management strategies ? Explain.