P.G. DIPLOMA IN FINANCIAL MARKETS PRACTICE

Term-End Examination

June, 2011

MFP-2 : EQUITY DERIVATIVES

Time : 3 hours   *Maximum Marks : 100*

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

1.   What are the uses of derivatives ? Who are their users and what is the size of the derivatives market ?

2.   What are spot and futures prices ? Explain contango and backwardation. Describe how can an investor make profits from arbitrage activity ? Give examples.

3.   What are option greeks ? Describe Delta, Gamma, Vega and Theta.

4.   How are options accounted for ? Describe the tax regulations of futures and options. What are international practices ?

MFP-2   1   **P.T.O.**

5. What are the various inefficiencies that persist in hedging strategies ? Explain each with an example.

6. (a) Explain the terms 'ex-dividend and cum-dividend', 'dividend yield' and earnings yield.
   (b) What is the difference between stock split and bonus issue ? How is future price determined when a company announces a bonus issue ?

7. Describe the intrinsic and time value concepts of options. How are minimum prices of an option arrived at ?

8. Describe with suitable examples some open strategies for speculation.

———