

M.Com. DEGREE (CSS) EXAMINATION, JUNE 2015**Fourth Semester**

Faculty of Commerce

Elective – Finance

FMO 4E 02 – FINANCIAL MARKETS AND DERIVATIVES

(2012 Admission onwards – Regular/Supplementary)

Time : Three Hours

Maximum Weight : 30

Section A*Answer any five questions.**Weight 1 each.*

1. Define reverse and carry arbitrage.
2. State binomial option price model.
3. Explain time and intrinsic value of option contract.
4. Distinguish between OTC derivatives and exchange traded derivatives.
5. Who are the players in the new issue market?
6. What is financial intermediation?
7. State the difference between investment and speculation.
8. What is cost and carry model of future pricing?

(5 × 1 = 5)

Section B*Answer any five questions.**Weight 2 each.*

9. Explain how interest rate SWAP can reduce the risk of counter parties.
10. Define futures and explain various types of futures.
11. Explain briefly the major players in the derivative market.
12. Define VaR and explain various methods of estimation of VaR.
13. Distinguish between Long Straddle and Short Straddle.
14. Explain the principle of put call parity relationship.
15. The current price of BSE-SENSEX is Rs. 16,500. The Dividend yield on index is 1% p.a. and the yield on risk free asset is 10% p.a.. both on simple interest basis. Their continuously compounding equivalents are .995% p.a. and 9.53% p.a. Calculate the price of 90 day index futures.

Turn over

16. Current market price of shares of A Ltd. is Rs. 100 and an option with exercise price of Rs. 115 for a call option with 12 month to expiration. It is expected that spot price of these shares at the end of 3 months from now might increase by 60% of the current spot price or it might decline by 20% of the current spot price. If risk free rate of interest is 10% p.a., find out the price of the call option.

(5 × 2 = 10)

Section C

Answer any **three** questions.

Weight 5 each.

17. Examine the role of SEBI in regulating the Indian Financial Markets.
18. Discuss the fundamental option strategies with suitable examples.
19. Describe the components of Indian Financial system and discuss its role and functions.
20. Discuss various types of futures and their characteristics.
21. Current market price of the shares of A Ltd. is Rs. 100 and an option with exercise price of Rs. 115 for a call option with 12 months to expiration. It is expected that spot price of these shares at the end of 3 months from now might increase by 60% of the current spot price or it might decline by 20% of the current spot price. If risk free interest rate is 10% p.a. Find out price of the call option (using Binomial model) ?
22. Current market price of Rs. 50, annual volatility 30%, risk free interest rate 10%. Find the value of 3 months European put option if exercise price is Rs. 40. Using Black Scholes option pricing formula.

(3 × 5 = 15)