D4ACM2201 **(2 Pages)** **Name.....**
Reg.No.....

FOURTH SEMESTER M.Com DEGREE EXAMINATION, APRIL 2024

(Regular/Improvement/Supplementary)

COMMERCE
FMCM4C14 - FINANCIAL DERIVATIVES AND RISK MANAGEMENT

Time: 3 Hours **Maximum Weightage: 30**

Part A: Answer any *four* questions. Each carries *two* weightage.

1. What does marked-to-market mean?
2. Differentiate between call option and put option.
3. What is meant by put call parity relationship?
4. Explain the trading mechanism of interest rate swap contracts.
5. Define value at risk. What is its significance?
6. What is credit default swap?
7. Suppose the yield on a two-year zero coupon Government of India bond is 4.322% and that on a three-year Government of India zero coupon security is 4.544%. What is the implied forward rate?

(4 × 2 = 8 weightage)

Part B: Answer any *four* questions. Each carries *three* weightage

8. What are currency futures? Discuss its features.
9. Explain the reasons for the growth of swap markets.
10. What are the advantages and disadvantages of OTC derivative instruments?
11. Differentiate between speculation and hedging.
12. Explain the characteristics of a forward contract.
13. A corporate is planning to issue 3-month commercial paper (CP) worth Rs. 15 Cr. in two months from now and the current CP spot rate is 7.40%. However, it is concerned about the possibility of rise in interest rates in the intervening period. Can it make use of FRA?
14. You are contemplating to buy futures (with a 3-month maturity) contract on a stock that is currently trading at Rs. 135. If the stock does not pay any dividends, how much will you pay for it if the T-bill yield is 6%?

(4 × 3 = 12 weightage)

(P.T.O.)

Part C: Answer any *two* questions. Each carries *five* weightage

15. Derivatives are financial products for management of exchange risk. Comment.
16. Discuss the various strategies of hedging with stock index futures.
17. Current market price of a share is Rs. 50, annual volatility 30%, risk free interest rate 10%. Find the value of 3 month put option if exercise price is Rs. 40 by applying Black and Scholes Model.
18. What is the price of a European call that expires in 180 days' time with a strike price of Rs.45 when the underlying is traded at Rs. 50? It is also given that the stock will pay a dividend of Rs. 2 in 45 days' time and the interest rate is 10% . Assume a flat yield curve and the volatility of the stock as 25% p.a.

(2 × 5 = 10 weightage)