C 43479 **(Pages : 2)** **Name..................................**

Reg. No...............................

FOURTH SEMESTER M.B.A. DEGREE EXAMINATION
JULY 2023

(CUCSS)

M.B.A.

BUS4EF07/IB07—FINANCIAL DERIVATIVES

(2016 Scheme)

Time : Three Hours Maximum : 36 Weightage

Section A

Answer **all** *the questions.*
Each question carries 1 *weightage.*

1. Explain the term ‘future contract’.
2. What do you mean by intrinsic value of an option ?
3. What is gama ?
4. What is historical volatility ?
5. What is currency swaps ?
6. What is Value at Risk ?

(6 × 1 = 6 weightage)

Section B

Answer any **four** *questions.*
Each question carries 3 *weightage.*

7. What are the various types of financial derivatives ?
8. Explain the relationship between futures prices, forward prices and spot prices.
9. Distinguish American option from European option.
10. What are the various assumptions under Black-Scholes model ?
11. How can hedging can be done in case of currency options ? Justify your answer with a suitable example.
12. What is vega ? How can it be used by traders ?

(4 × 3 = 12 weightage)

Turn over

Section C

Answer any **three** *questions.*

Each question carries 4 *weightage*

13. Explain the functions of derivative markets.
14. What are forward contracts ? How do forward contracts work ?
15. What are credit default swaps ? Explain the difference between regular credit default swaps and binary credit default swaps.
16. Compare and contrast spread, straddle and strangle option strategies with examples.
17. Explain the different option pricing models.

(3 × 4 = 12 weightage)

Section D

Answer the following compulsory question which carries 6 *weightage.*

18. Assume a stock trades for Rs. 120. A call option on this stock has a strike price of Rs. 120 and costs Rs. 11. A put option also has a strike price of Rs. 120 and costs Rs. 8. A risk-free bond promises to pay Rs. 120 at the expiration of the option in one year. What should the price of this bond be ?

(1 × 6 = 6 weightage)