MBA 3720

M.B.A. DEGREE EXAMINATION, JUNE 2007.

Fourth Semester

Finance

Paper XX — FINANCIAL DERIVATIVES

Time : Three hours Maximum : 100 marks

PART A — (5 × 6 = 30 marks)

Answer any FIVE out of the following.

1. What are derivates? Why do companies hedge risk using derivatives?

2. Explain briefly forward contracts? What are the limitations?

3. How are options priced?

4. What is risk? How can risk of a security be calculated?

5. Explain about interest rate swaps?

6. What are the hedging schemes?

7. What is Vego and rho?

8. What are index options?

PART B — (5 × 10 = 50 marks)

Answer any FIVE out of the following :

9. Discuss the difference between options and futures?

10. What is Black-scholes model for call options?

11. What is a currency swap? Howe does currency swap reduce exposure to risk?

12. Explain the difference between selling a call option and buying a put option? Illustrate your answer.

13. Why isn't it beneficial to exercise and American call option early? give reasons.

14. Explain the derivatives market in India?

15. Describe the different sources of financial risk?

16. Explain about the Portfolio Insurance?

PART C — (1 × 20 = 20 marks)

CASE STUDY–COMPULSORY

17. Mr. Dravid is the portfolio manager in Osram Mutual Fund Company. He has a debt fund that has invested Rs. 200 million in long term corporate debentures. He wants to convert the holding in to a synthetic floating rate portfolio. The portfolio pays 9

percent fixed return. Assume that a swap dealer offers 9 percent fixed for MIBOR (Mumbai inter borrowing rate)

(a) What should Mr. David do?

(b) What is the net payment?

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