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Reg. No. : ....

Name : ....

IV Semester M.B.A. (Full Time) Degree Examination, July 2009
(2006 Scheme)
FINANCIAL DERIVATIVES

Time : 3 Hours   Max. Marks : 60

PART – A

Write short notes on **any five** questions. **Each** question carries **three** marks.

1. What is Risk Aversion ?

2. What is a derivative ?

3. What is forward trading ?

4. What is commodity futures ?

5. What is arbitrage ?

6. What is an options contract ?

7. What is a swap ?

8. What is a credit derivative ?   **(5×3=15 Marks)**

PART – B

Answer **any three** questions elaborately. **Each** question carries **ten** marks.

9. Explain the relationship between risk and return.

10. Explain the 'Black Scholes Pricing Model'.

11. Explain how 'pricing of futures' is done.

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12. The stock index is currently at 1400 and the six-months stock index futures is trading at 1500. The risk-free annual rate is 11 percent. What is the average annual dividend yield on the stocks in the index ?

13. What are the key differences between forwards and futures ? **(3×10=30 Marks)**

PART – C

Answer the questions at the end of the case/problem :

Price changes of two software stocks, X and Y, are positively correlated. The historical relationship has been as follows :

Percentage change in X = 0.02 + 0.80 (Percentage change in Y).

a) If an investor owns Rs. 2 million of X, how much of Y should he short sell to minimise his risk ?

b) What is his hedge ratio ? **15**

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