

M. COM. DEGREE END SEMESTER EXAMINATION - APRIL 2021**SEMESTER 4 : COMMERCE****COURSE : 16P4COMT19EL : DERIVATIVES AND RISK MANAGEMENT***(For Regular - 2019 Admission and Supplementary - 2018/2017/2016 Admissions)*

Time : Three Hours

Max. Marks: 75

PART A**Answer any 10 (2 marks each)**

1. What are Commercial Papers?
2. What is call money?
3. Explain the following concepts in the language of derivatives: (a) Hedging (b) Speculating (c) Arbitraging
4. Explain the following concepts :
 - In-the-money
 - Out-of-the-money
 - At-the-money
5. An amount of Rs. 70,000 is invested for 2 years at 10% p.a. Calculate the terminal value of the investment at the end of the 2nd year, assuming continuous compounding of interest.
6. How does a derivative help to eliminate uncertainty regarding future price of assets traded? Illustrate.
7. What are options? Distinguish between call option and put option.
8. What do you mean by margin money?
9. What is reverse cash-and-carry arbitrage?
10. What is Intrinsic value of an option?
11. Why u factor is greater than one and d factor is less than one?
12. What is Sensex? How is it computed?

(2 x 10 = 20)**PART B****Answer any 5 (5 marks each)**

13. Describe the functions of a Stock Exchange?
14. Who all are the players in the management of public issue?
15. Distinguish between hedgers and speculators in the derivatives market.
16. Determine the futures price from the following data:

Spot price	Rs. 20,00,000
Cost-of-carry	12 % p.a.
Carry period	6 Months

Use cost of carry model.
17. Discuss the cost-of-carry model of futures pricing.
18. Describe the steps involved in a currency swap.
19. Compare and contrast the Black-Scholes model with the Binomial model.
20. "Hedging may not be perfect always." Explain.

(5 x 5 = 25)

PART C

Answer any 3 (10 marks each)

21. What are the instruments used in a capital market.
22. Define a forward contract. Discuss its features with suitable examples.
23. The current market price of Ranbaxy Laboratories is Rs. 537. A put option on the stock has an exercise price of Rs. 525. The risk-free interest rate is 6.15% p.a. The stock volatility, measured by variance of stock prices, is 84%. Use a binomial tree with monthly intervals to calculate: Possible stock prices after three time intervals.
24. What do you mean by Binomial Option Pricing Model? What are the assumptions? Briefly di its important characteristics.
25. Current price of a stock is Rs. 90 per share. The risk free rate of interest is 8% annualised continuous compounding. If the volatility of the stock is 23% p.a. what is the price of the Rs. 80 call option expiring in 6 months according to Black and Scholar model?

(10 x 3 = 30)