

**SIXTH SEMESTER B.Com./B.B.A. DEGREE EXAMINATION, MARCH 2020**

(CUCBCSS—UG)

B.Com.

BCM 6B 14—FINANCE SPECIALISATION—III : FINANCIAL DERIVATIVES

(2017 Admissions)

Time : Three Hours

Maximum : 80 Marks

**Part A***Answer all questions.**Each question carries 1 mark.*

(A) Choose the correct answer :

1 Which of the following is not a financial derivative ?

- (a) Stock. (b) Futures.  
(c) Options. (d) Forward contracts.

2 The strike price of an option is :

- (a) The market price at the time the option is written.  
(b) The market price at the time the option is exercised.  
(c) The price at which the option holder has to right to buy or sell.  
(d) Above the market price.

3 A put option described as in-the-money would find :

- (a) The market price of the stock above the strike price.  
(b) The strike price is above the market price of the stock.  
(c) The market and strike prices are the same.  
(d) None of these.

4 An option that can be exercised at any time up to maturity is called \_\_\_\_\_.

- (a) Bermudan option. (b) Stock option.  
(c) European option. (d) American option.

**Turn over**

- 5 The amount paid for an option is the \_\_\_\_\_.
- (a) Strike price. (b) Premium.  
(c) Discount. (d) Commission.

(B) Fill in the blanks :

- 6 The theoretical price of a futures contract is spot price of the underlying plus \_\_\_\_\_.
- 7 Futures contracts, unlike forwards, are traded on \_\_\_\_\_.
- 8 Forward contracts can be worth less than \_\_\_\_\_.
- 9 \_\_\_\_\_ delivery is common with commodities and bonds.
- 10 The price of the swap is the difference between the values of two \_\_\_\_\_.

(10 × 1 = 10 marks)

### Part B (Short Answer Questions)

*Answer any eight questions.*

*Each question carries 2 marks.*

- 11 What are the underlying assets for a derivative instrument ?
- 12 What do mean by basis risk ?
- 13 Write a short note on currency futures.
- 14 What do you mean by intrinsic value ?
- 15 Who are the parties involved in a swap contract ?
- 16 What do you mean by open interest ?
- 17 What is an option strategy ?
- 18 What is hedging ?
- 19 What do you mean by marking to market ?
- 20 What is option pay-off ?

(8 × 2 = 16 marks)

### Part C (Short Essay Questions)

*Answer any six questions.*

*Each question carries 4 marks.*

- 21 Discuss the need and importance of derivatives.
- 22 Write a short note on exchange traded derivatives in India.

- 23 Discuss the features of forward Contracts.
- 24 Explain various strategies of hedging with futures.
- 25 Explain in details various settlements in derivative markets.
- 26 'Future contracts are obligations, whereas options are rights'. Do you agree ?
- 27 Explain the economic functions of swap transactions.
- 28 Briefly explain the bullish strategies for option contract.

(6 × 4 = 24 marks)

**Part D (Essay Questions)**

*Answer any two questions.*

*Each question carries 15 marks.*

- 29 Discuss the evolution of derivatives trading in India.
- 30 Briefly discuss the features, merits and demerits of future contracts.
- 31 Discuss the various types of swaps and their features.

(2 × 15 = 30 marks)

