K18P 0917

Reg. No. : ....

Name : ....

Third Semester M.Com. Degree (Reg./Suppl./Imp.) Examination, October 2018
(2017 Admission)
COM3C14 : DERIVATIVES AND RISK MANAGEMENT

Time : 3 Hours

Max. Marks : 60

SECTION – A

Answer **any four** questions in this Section. **Each** question carries **1** mark for Part (a), **3** marks for Part (b) and **5** marks for Part (c).

1. a) What is put option ?
   b) What are the functions of derivative Market ?
   c) Write a note on put-call parity.

2. a) What do you mean by spot price ?
   b) Explain about Hedging.
   c) Explain about the commodity exchanges in India.

3. a) What do you mean by speculation ?
   b) Discuss the expectation approach in futures pricing.
   c) Write a short notes on :
      i) Intrinsic value of the option ii) Time value of money.

4. a) What do you mean by American option ?
   b) Consider a six month long forward contract of a non-income paying security. The risk free rate of interest is 6 percent per annum. The stock price is Rs. 30 and the delivery price is Rs. 28. Compute the value of forward contract.
   c) What are the differences between options and futures ?

P.T.O.

5. a) What is initial margin ?
   b) What are the features of forward contract ?
   c) The stock price of Reliance industries in spot market is Rs. 450 and two-month option contract is of Rs. 450. The price of the option is Rs. 20 per share. At what price the option will be at the money, out-of-money and in the money of the option is both call as well as put option ?

6. a) What is Arbitrage ?
   b) Discuss the cost of carry model in futures pricing.
   c) What are the importance of commodity exchanges ? **(4×9=36)**

SECTION – B

Answer either a) or b) in **each** of the following. **Each** question carries **12** marks.

7. a) What is option pricing ? What are the factors influencing option prices ?
   b) Calculate the value of a European call option.

   Current market price of a stock : Rs. 92 per share

   Exercise price : Rs. 80 per share

   Time to expiry : 50 days

   Risk free interest rate : 7.12%

   Volatality of stock : 3.5%

   The above stock does not pay dividends. Use Black-Schold formula.

8. a) Discuss the Evolution of derivative markets in India.
   b) Explain in detail the Black-Schold option pricing model. **(2×12=24)**
