REV-01
MBA/79/84

2023/06

SET B

MASTER OF BUSINESS ADMINISTRATION
FOURTH SEMESTER
MANAGEMENT OF FINANCIAL DERIVATIVES
MBA – 404C
[USE OMR SHEET FOR OBJECTIVE PART]

Duration: 3 hrs. **Full Marks: 70**

Objective

Time: 30 mins. **Marks: 20**

Choose the correct answer from the following: ***1×20=20***

1. Options are contracts that give the purchasers the
   a. Option to buy or sell an underlying asset.
   b. The obligation to buy or sell an underlying asset.
   c. The right to hold an underlying asset.
   d. The right to switch payment streams.

2. Options on futures contracts are referred to as-
   a. Stock options
   b. Futures options
   c. American options
   d. Individual options.

3. According to the Black-Scholes option pricing model:
   a. The option price does not depend on the risk-free interest rate
   b. The most difficult parameter to estimate is the risk-free interest rate
   c. The option price does not depend on the expected return of the underlying stock
   d. An at-the-money call is worth the same as an at-the-money put

4. The type of swaps in which the fixed payments of interest are exchanged by two counterparties for floating payments of interest are called
   a. Interest rate swap
   b. Float-fixed swap
   c. Indexed swap
   d. Counter party swap

5. The disadvantage of swaps is that they-
   a. Lack of liquidity
   b. Suffer from default risk
   c. Both A & B
   d. B only

6. The amount of money involved in swap transaction is classified as
   a. Notion principal
   b. Swap principal
   c. Transaction swap
   d. Time value of swap

7. Composite value of traded stocks group of secondary market is classified as
   a. Stock index
   b. Primary index
   c. Stock market index
   d. Limited liability index

8. By hedging a portfolio, a bank manager
   a. Reduces interest rate risk.
   b. Increases reinvestment risk.
   c. Increases exchange rate risk.
   d. Increases the probability of gains.

9. NSE Nifty index consist of-
   a. 20 stocks
   b. 50 stocks
   c. 100 stocks
   d. 150 stocks

10. SENSEX is the index of-
   a. Bombay stock exchange
   b. National stock exchange
   c. New York stock exchange
   d. None of the above

11. Which of the following is not a financial derivative?
   a. Stock
   b. Futures
   c. Options
   d. Forward contracts

12. Futures contracts are more successful than interest rate forward contracts because they
   a. are less liquid
   b. have greater default risk
   c. are more liquid
   d. have an interest rate tied to the discount rate

13. The payoffs for financial derivatives linked to-
   a. Securities that will be issued in the future
   b. The volatility of interest rates
   c. previously issued securities
   d. None of the above.

14. A speculator with a bullish view on a security can-
   a. buy stock futures
   b. buy index futures
   c. sell stock futures
   d. sell index futures

15. The number of future contract outstanding is called ....
   a. Liquidity
   b. Float
   c. Volume
   d. Turnover

16. Identify the false statement.
   a. Futures contracts trade on a financial exchange.
   b. Futures contracts are marked to market.
   c. Futures contracts allow fewer delivery options than forward contracts.
   d. Futures contracts are more liquid than forward contracts.

17. The advantage of forward contracts over future contracts is that they
   a. are standardized
   b. have lower default risk
   c. are more liquid
   d. None of the above.

18. Futures contracts are regularly traded on the
   a. Chicago Board of Trade.
   b. New York Stock Exchange
   c. American Stock Exchange.
   d. Chicago Board of Options Exchange.

19. The amount paid for an option is the-
   a. Strike price
   b. Discount
   c. Premium
   d. Yield

20. A call option gives the owner -
    a. The right to sell the underlying security
    b. The obligation to sell the underlying security.
    c. The right to buy the underlying security
    d. The obligation to buy the underlying security.

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Descriptive

Time : 2 Hr. 30 Mins. **Marks : 50**

[Answer question no.1 & any four (4) from the rest]

1. a) Define derivatives. Classify the various categories of traders in the Derivative market. 5+5=10
   b) Discuss the importance and economic benefits of derivatives markets.

2. Write a note on evolution of Derivative market in India. 10

3. a) Discuss the various terminology of forward contract. 5+5=10
   b) Discuss the differences between forward contract and future contract?

4. Define Futures. Explain the Futures trading mechanism in India 10

5. a) Define swap. Explain briefly the concept of commodity swap and interest rate swap. 5+5=10
   b) Differentiate between swaps and options.

6. Write the meaning of option derivatives. Discuss the significance of option trading. 10

7. Elucidate the concept of Black- Scholes model or Cost of Carry Model. 10

8. Give a note on stock index futures. 10

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