C 20466 (Pages : 2) Name.......................................

Reg. No...................................

SIXTH SEMESTER U.G. DEGREE EXAMINATION, MARCH 2022

(CBCSS–UG)

B.Com.

BCM 6B 15—FINANCIAL DERIVATIVES (FINANCE SPECIALISATION)

(2019 Admissions)

Time : Two Hours and a Half Maximum : 80 Marks

Section A

Answer atleast **ten** *questions.*
Each question carries 3 *marks.*
All questions can be attended.
Overall ceiling 30.

1. What is Derivative market ?
2. What is an Interest rate future ?
3. What do you mean Swaps ?
4. What is Basket option ?
5. What is Strangle ?
6. What is Currency future ?
7. What is making to market ?
8. What is Long position ?
9. List out the limitations of Forward contracts.
10. What is an Index options ?
11. What is Futures ?
12. What is Swaption ?
13. Who is Speculator ?

Turn over

14. Difference between Spot contract and Forward contract.

15. What is Employee Stock Options ?

(10 × 3 = 30 marks)

Section B

Answer atleast **five** *questions.*
Each question carries 6 *marks.*
All questions can be attended.
Overall ceiling 30.

16. Explain the importance of derivative markets.

17. What are the difference between Arbitrage and Speculation ?

18. What are the functions of clearing house ?

19. Describe the functions of regulatory authorities in derivative market.

20. What are the advantages of Commodity futures ?

21. Difference between Intrinsic value and Time value options.

22. Explain the difference between Swaps and Futures

23. Explain the features of Currency futures.

(5 × 6 = 30 marks)

Section C

Answer any **two** *questions.*
Each question carries 10 *marks.*

24. Define Future contracts. Discuss the types of Future contracts.

25. Discuss the major players or participants of Derivative markets.

26. Explain the factors contributing to the growth of Derivatives.

27. Explain the role of clearing house in the future contracts.

(2 × 10 = 20 marks)

C 20466-A **(Pages : 4)** **Name.......................................**

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BCM 6B 15—FINANCIAL DERIVATIVES (FINANCE SPECIALISATION)

(2019 Admissions)

(Multiple Choice Questions for SDE Candidates)

Time : 15 Minutes	**Total No. of Questions : 20**	**Maximum : 20 Marks**

INSTRUCTIONS TO THE CANDIDATE

1. This Question Paper carries Multiple Choice Questions from 1 to 20.
2. The candidate should check that the question paper supplied to him/her contains all the 20 questions in serial order.
3. Each question is provided with choices (A), (B), (C) and (D) having one correct answer. Choose the correct answer and enter it in the main answer-book.
4. The MCQ question paper will be supplied after the completion of the descriptive examination.

BCM 6B 15—FINANCIAL DERIVATIVES (FINANCE SPECIALISATION)

(Multiple Choice Questions for SDE Candidates)

1. Financial derivatives include :

   (A) Stocks. (B) Bonds.

   (C) Forward contracts. (D) Both (A) and (B) are true.

2. 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.

3. Hedging risk for a short position is accomplished by :

   (A) Taking a long position.

   (B) Taking another short position.

   (C) Taking additional long and short positions in equal amounts.

   (D) Taking a neutral position.

4. A long contract requires that the investor :

   (A) Sell securities in the future. (B) Buy securities in the future.

   (C) Hedge in the future. (D) Close out his position in the future.

5. Futures markets have grown rapidly because futures :

   (A) Are standardized. (B) Have lower default risk.

   (C) Are liquid. (D) All of the above.

6. Elimination of riskless profit opportunities in the futures market is :

   (A) Hedging. (B) Arbitrage.

   (C) Speculation. (D) Underwriting.

7. Which of the following features of futures contracts were not designed to increase liquidity ?

   (A) Standardized contracts.

   (B) Traded up until maturity.

   (C) Not tied to one specific type of bond.

   (D) Marked to market daily.

8. Futures differ from forwards because they are :

   (A) Used to hedge portfolios.

   (B) Used to hedge individual securities.

   (C) Used in both financial and foreign exchange markets.

   (D) A standardized contract.

9. If a firm is due to be paid in deutsche marks in two months, to hedge against exchange rate risk the firm should :

   (A) Sell foreign exchange futures short.

   (B) Buy foreign exchange futures long.

   (C) Stay out of the exchange futures market.

   (D) None of the above.

10. If a firm is due to be paid in deutsche marks in two months, to hedge against exchange rate risk the firm should ———— foreign exchange futures ————.

    (A) Sell ; short. (B) Buy ; long.

    (C) Sell ; long. (D) Buy ; short.

11. The price specified on an option that the holder can buy or sell the underlying asset is called the :

    (A) Premium. (B) Strike price.

    (C) Exercise price. (D) Both (B) and (C) are true.

12. The seller of an option is ———— to buy or sell the underlying asset while the purchaser of an option has the ———— to buy or sell the asset.

    (A) Obligated; right. (B) Right ; obligation.

    (C) Obligated; obligation. (D) Right ; right.

13. An option that can only be exercised at maturity is called a(n) :

    (A) Swap. (B) Stock option.

    (C) European option. (D) American option.

14. 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.

15. An option allowing the holder to buy an asset in the future is a :

    (A) Put option. (B) Call option.

    (C) Swap. (D) Premium.

16. A put 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.

17. An option allowing the owner to sell an asset at a future date is a :

    (A) Put option. (B) Call option.

    (C) Swap. (D) Forward contract.

18. If you buy a put option on treasury futures at 115, and at expiration the market price is 110 :

    (A) The call will be exercised. (B) The put will be exercised.

    (C) The call will not be exercised. (D) The put will not be exercised.

19. The main advantage of using options on futures contracts rather than the futures contracts themselves is that :

    (A) Interest rate risk is controlled while preserving the possibility of gains.

    (B) Interest rate risk is controlled, while removing the possibility of losses.

    (C) Interest rate risk is not controlled, but the possibility of gains is preserved.

    (D) Interest rate risk is not controlled, but the possibility of gains is lost.

20. The main reason to buy an option on a futures contract rather than the futures contract is :

    (A) To reduce transaction cost. (B) To preserve the possibility for gains.

    (C) To limit losses. (D) Remove the possibility for gains.