Seat No.: _____ Enrolment No._____

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER–IV • EXAMINATION–SUMMER • 2014

Subject Code: 2840202 **Date: 26-05-2014**

Subject Name: Risk Management (RM)

Time: 10.30 am - 13.30 pm **Total Marks: 70**

Instructions:

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Q.1 **(a)** Define Swap Contract. Discuss Currency Swap and Interest Rate Swap. **07**

(b) What are the differences between exchange traded and Over the Counter derivatives? **07**

Q.2 **(a)** What do you understand by Derivatives? Also discuss types of derivatives. **07**

(b) Define forward contract with suitable example. Discuss the important features of forward contract with its limitations. **07**

OR

(b) Explain the concept of Short Hedge and Long Hedge with suitable example. **07**

Q.3 **(a)** Explain the concept of Cash and Carry Arbitrage and Reverse Cash and Carry Arbitrage with suitable example. **07**

(b) Following data as on 15 January 2014 is available. **07**

A stock of TCS Ltd. = Rs 2500

1 – month futures on TCS Ltd. maturing 15 February 2014 = Rs 2568

Risk free Interest Rate = 12%

1. Find the value of one future contract of TCS Ltd. (one future contract on TCS Ltd includes 50 shares of TCS Ltd.)
2. Find the Fair Value of the future contract.
3. Is there any opportunity to make profit from the prices prevailed in the market? If yes, how?

OR

Q.3 **(a)** What do you understand by Perfect Hedge and Imperfect Hedge? Discuss the key factors responsible for imperfect hedge. **07**

(b) A Jute Packaging Unit has planned production of 4300 kg of Jute to be sold six months later. The spot price of Jute is Rs 1900 per kg and six months futures on the same is trading at Rs 1850 per kg. The price is expected to fall to as low as Rs 1700 per kg six months later. What can Jute Packaging Unit do to mitigate its risk of reduced profit? If the Jute Packaging Unit decides to make use of futures market what would be the effective realized price for its sale proceed? Assume spot and futures prices after six months to be Rs 1750 and Rs 1755. The size of one Jute future contract is 200 kg. **07**

Q.4 **(a)** Define Option Contract. Explain the different factors that affect the price of an option. **07**

(b) A 3 month Put Option on the Tata Tea with strike price of Rs 550 is selling for Rs 60. The share of Tata Tea is presently trading at Rs 500 in the market. Calculate the following: **07**

1. What is the Intrinsic Value of this Put Option?
2. What is the Time Value of this Put Option? Give Comments.
3. Find out Put Option break even price.

OR

Q.4 **(a)** "The American put option which allows for early exercise may be more valuable than the European Put Option" – Justify this statement. **07**

(b) Given the following information about a share: **07**

Current Market Price Rs 50
Annual Volatility : 30%
Risk Free Interest Rate : 10%
Find out :

1. The value of 3-month Call Option with exercise price of Rs 40.
2. Find out the Intrinsic Value and Time Value of the call.

Q.5 **(a)** Write short note on: **07**

1. ITM, ATM and OTM
2. Forward Rate Agreement

(b) Write a note on Credit Derivatives. **07**

OR

Q.5 **(a)** Discuss Bull Spread and Bear Spread option trading strategies. **07**

(b) Write a brief note on Greek Letters. **07**

****