Seat No.: _____ Enrolment No._____

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER–IV • EXAMINATION–SUMMER • 2014

Subject Code: 840203 **Date: 28-05-2014**

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)** Write a note on : Market Order & Stop Loss Order **07**

(b) What are derivatives? Explain its functions. **07**

Q.2 **(a)** Discuss each of the following type of traders in a derivatives market- Hedger & Speculator. **07**

(b) Explain how futures contracts differ from forward contracts? **07**

OR

(b) What is Marking –To- Market? **07**

Q.3 **(a)** What is open interest? **07**

(b) Assume that the futures price of gold contracts is INR 30,500 and the spot price of gold is INR 30,800 during the tender period. The price is for 10 g of gold and each futures contract is for 10 g. **07**

What transactions would an arbitrager undertake?

What would be the arbitrager profit?

OR

Q.3 **(a)** Should hedging be undertaken? Support your answer with a suitable illustration. **07**

(b) On September 3, BSE sensex 30 is at 21,140.BSE Sensex future with an expiry on October 27 are available at a price of 21,360.The contract multiplier is 15.Calculate the cash flow for the following if the BSE sensex 30 has a value of 21,520. **07**

(i) You take a long position in five BSE Sensex 30 futures contracts on September 3.

(ii) You take a short position in three BSE Sensex 30 futures contracts on September 3.

Q.4 **(a)** A certain stock is selling currently at Rs 72. An investor, who feels that a significant change in this price is unlikely, in the next three months, observes the market prices of 3-month calls as tabulated below: **07**

Exercise Price	Call Price (Rs)
65	11
70	8
75	6

The investor decides to go long in two calls-one each with exercise price Rs 65 and Rs 75- and writes two calls- with an exercise price of Rs 70.Determine his payoff function for different levels of stock price. Also, find his profit/loss when the stock price at maturity is (i) Rs 63. (ii) Rs 68, (iii) Rs 73, and (iv) Rs 80.

(b) What are options contracts? Explain its characteristics. **07**

OR

Q.4	**(a)**	Consider the following information with regard to a call option on the stock of ABC company. Calculate the call option value using Black And Scholes .Current price of the share,S0 = Rs 120.Exercise Price of the option, E = Rs 115 Time period of expiration = 3 months. Standard derivative of the distribution of continuously compounded rates of return σ = 0.6.Continously compounded risk-free interest rate, r = 0.10	**07**
	(b)	The XYZ Option lot size is 375.Its share price as on September 1 is INR 1,111.35.A put option with the exercise date of November 26 and an exercise price of INR 1,140 is priced at INR 116.15.If Put-Call parity holds, what will be the price of the call option with the exercise date of November 26 and an exercise price of INR 1,140?	**07**
Q.5	**(a)**	What are Swaps? Explain its types.	**07**
	(b)	What are currency futures? Explain advantages of exchange traded currency futures.	**07**

OR

Q.5	**(a)**	What do you understand by commodity futures? What are the benefits of commodity futures at national level?	**07**
	(b)	Write about economic function of the derivatives.	**07**

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