

MAY 2012

**P/ID 77539/  
PMHQ/PMB07**

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Time : Three hours

Maximum : 100 marks

PART A — (5 × 6 = 30 marks)

Answer any FIVE questions.

All questions carry equal marks.

1. Define derivatives and its products in brief.
2. Discuss about the global derivatives market in India.
3. Describe call options and put options and their advantages.
4. Write a brief note on organized future trading.
5. Discuss the cost of carry model in detail.
6. State and explain the benefits of risk Management.
7. Write a brief note on options traders.
8. Why might it be inappropriate for a corporation to hedge?

PART B — (5 × 10 = 50 marks)

Answer any FIVE questions.

All questions carry equal marks.

9. Explain the differences in rights and obligations as they apply to owning a call option and selling a put option.
10. Assume that you will borrow on a short-term loan in six months, but you do not know whether you will be offered a fixed rate or a floating rate loan. Explain how you can use futures to convert a fixed rate to a floating-rate loan and to convert a floating rate to a fixed-rate loan.
11. Describe the difference between a stack hedge and strip hedge. What are the advantages and disadvantages of each?
12. Two call options are identical except that they are written on two different stocks with different risk levels. Which will be worth more? Why?
13. Compare and contrast between forward and future and future contracts with suitable examples.
14. What do you understand by the term interest rates? Discuss the various types of interest rates along with different yield curve.

15. What do you understand by loss control? What are the potential benefits of loss control? Describe the potential costs of loss control.
16. Explain the principle of forward and future pricing in detail.

PART C — (1 × 20 = 20 marks)

Compulsory.

17. A stock trades for \$40 and a call on the stock with an expiration date in three months and a \$40 strike price sells for \$5. The risk-free rate of interest is 12 percent. State exactly how you would trade to create a synthetic put with a strike price of \$40. Make a table showing the terminal values of your synthetic put and the actual put at expiration as a function of the stock price.
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