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**SIDDHARTH INSTITUTE OF ENGINEERING & TECHNOLOGY:: PUTTUR**  
(AUTONOMOUS)  
**MBA II Year II Semester Regular Examinations, May - 2019**  
**FINANCIAL DERIVATIVES**

Time: 3 hours

Max. Marks: 60

(Answer all Five Units **5 x 10 = 50** Marks)**UNIT-I**

- 1** What do you mean by ‘Derivatives Market’? Explain the key differences between spot market and derivatives market. 10M

**OR**

- 2** Write a detailed note on the evolution of derivatives market in India. 10M

**UNIT-II**

- 3 a** “Forward contracts are zero-sum games”. Explain. 5M

- b** Give the difference between the delivery price and the forward price. 5M

**OR**

- 4** Calculate the forward price on a 6-month contract on a share, expected to pay no dividend during the period, which is available at Rs 75, given that the risk-free rate of interest to be 8% p.a compounded continuously. 10M

**UNIT-III**

- 5** There are a number of factors influence option pricing. Explain 10M

**OR**

- 6 a** What are the various assumptions of binomial pricing model? 5M

- b** Discuss one step binomial pricing model with hypothetical example. 5M

**UNIT-IV**

- 7** What are the various trading strategies involving options? Explain. 10M

**OR**

- 8** What is straddle? How to construct a ‘long straddle’ and ‘short straddle’? Explain. 10M

**UNIT-V**

- 9** Discuss various types of ‘Interest Rate Swaps’ with suitable examples. 10M

**OR**

- 10** “Plain Vanilla swap is simplest form of interest rate swap contract available in interest rates swaps market”. Discuss with suitable examples along with its structure and mechanism. 10M

**SECTION – B**

(Compulsory Question)

**11. Case Study****1 x 10 = 10** Marks

Stock price(S) = Rs 20

Strike price (K) =Rs 21

Upswing (u) = 1.1

Downswing (d) =0.9

Risk free interest rate = 0.12

Time to expiration=0.25

Find out call option value using Binomial pricing model.

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