SIDDHARTH INSTITUTE OF ENGINEERING & TECHNOLOGY:: PUTTUR
(AUTONOMOUS)
MBA II Year II Semester Regular & Supplementary Examinations June/July 2025
FINANCIAL DERIVATIVES

Time: 3 Hours   **Max. Marks: 60**

SECTION – A
(Answer all Five Units 5 x 10 = 50 Marks)

UNIT-I

1	a	Explain the growth and development of derivatives.	CO1	L2	5M
	b	Elucidate the merits of financial derivatives.	CO1	L3	5M

OR

2	a	Describe the risk involved in financial derivatives.	CO1	L3	5M
	b	Elaborate on the objectives of derivatives.	CO1	L3	5M

UNIT-II

3	"Hedging is the basic function of the futures market". Discuss the statement in the light of the uses of futures contracts.	CO2	L4	10M

OR

4	The spot price of wheat is Rs 330 per ton. A person has sold a forward contract on wheat expiring in 5 months, and the contract is for 300 tons of wheat. The price of the forward contract is Rs 315. Assuming the risk-free rate to 4%, compute the value of the forward contract.	CO2	L4	10M

UNIT-III

5	a	Write notes on: Bullish call option spread and Bearish call option spread.	CO3	L2	5M
	b	Discuss various types of options.	CO3	L3	5M

OR

6	a	Elucidate the distinction between options and futures contracts with suitable examples.	CO3	L3	5M
	b	What are the various assumptions of the binomial pricing model?	CO3	L2	5M

UNIT-IV

7	a	Explain the concept of fixed hedging.	CO4	L2	5M
	b	What is the currency option market? What are its features? Explain with an example.	CO4	L2	5M

OR

8	"The ultimate economic functions of financial derivatives are to provide means of risk reduction" Comment upon the statement with comparison of hedging with options with other financial derivatives instruments.	CO4	L4	10M

UNIT-V

9	a	What is a swap and a swap contract? Explain the nature of swaps.	CO5	L2	5M
	b	How do you relate interest rate swaps with currency swaps, and how do you price them?	CO5	L2	5M

OR

10	a	What do you mean by equity swap? Explain its types and applications.	CO5	L2	5M
	b	Show how a currency swap agreement can take place. Explain with an example.	CO5	L2	5M

SECTION – B
(Compulsory Question)

11   **1 x 10 = 10 Marks**

If the spot price of a stock is Rs 40/- and the strike price is Rs 49/-. Risk risk-free rate of interest is 7% pa, and the standard deviation of the stock is 30%. Expiration date is 4 months, and the option type is a European option. Calculate the value of a call option as per the Black-Scholes model.

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