Paper : COMSPL15104B

(*Derivatives*)

1. Choose the correct answer : 1×6=6

   (i) Which of the following is a type of derivative ?

   (a) Treasury bill

   (b) Preference shares

   (c) Equity shares

   (d) Options

   (ii) The regulatory body that oversees the derivatives market in India is

   (a) SEBI

   (b) RBI

   (c) IRDAI

   (d) CCI

   (iii) Which of the following statements is true regarding 'credit default swaps' (CDS) ?

   (a) CDSs are used to hedge against the risk of default on debt.

   (b) CDSs are used to guarantee bond prices.

(c) CDSs guarantee the principal repayment on a loan.

(d) CDSs are not tradable.

(iv) Which of the following is a type of commodity derivative?

(a) Stock options

(b) Corporate bonds

(c) Treasury bonds

(d) Gold futures

(v) The primary risk faced by participants in derivative market is

(a) operational risk

(b) market risk

(c) currency risk

(d) physical risk

(vi) The most commonly used type of derivative contract by institutional investors to manage interest rate risk is

(a) Futures

(b) Options

(c) Swaps

(d) Forwards

2. Answer the following questions : ***(any five)*** 2×5=10

(i) What is derivative?

(ii) What is an Option Contract?

(iii) How is hedging different from arbitraging?

(iv) What is index future?

(v) What is a currency swap?

(vi) Write *any two* points of differences between the American style and the European style of an option.

(vii) Who are scalpers in the derivative market?

3. Answer ***any six*** questions : 5×6=30

(i) Write the features and advantages of derivatives.

(ii) Classify the type of options based on the expiration date and explain.

(iii) Distinguish between forward and future contracts.

(iv) Discuss the role of SEBI in the Indian derivative market.

(v) Write a case study on the recent scam in the Indian derivative market.

(vi) The prices of shares Y and Z are INR 150 and 250 respectively. These shares are compounded continuously @ 7% risk-free rate of interest. Calculate the ideal contract price of 9 months' future contract for both the shares.

(vii) What are the risks involved in derivative trading? Explain.

(viii) Describe the concept of 'leverage' in derivatives trading.

(ix) How do derivatives contribute to risk management in India's financial markets? Explain.

4. Answer ***any two*** questions : 12×2=24

(i) What are the different types of derivatives traded in India? Explain their key features.

(ii) Write a detailed note on the major recommendation of Dr. L. C. Gupta Committee on derivatives.

(iii) How does the derivatives trading take place in NSE? Explain its trading mechanism.

(iv) Analyse any three commonly used models to calculate options.
