

**FOURTH SEMESTER M.Com. DEGREE EXAMINATION, JUNE 2018**

(CUCSS)

**MC 4C 14—FINANCIAL DERIVATIVES AND RISK MANAGEMENT**

(2015 Admissions)

Time : Three Hours

Maximum : 36 Weightage

**Part A***Answer all questions.**Each question carries 1 weightage.*

1. What is spot price ?
2. Define index option.
3. What is derivative exposure ?
4. What is *out-of-money* position ?
5. What do you mean normal backwardation ?
6. What is 'put call parity' ?

(6 × 1 = 6 weightage)

**Part B***Answer any six of the following.**Each question carries 3 weightage.*

7. "Future contracts are obligations, whereas options are rights". Do you agree ? Justify it.
8. What is an option ? What is the difference between a call option and a put option.
9. What is a currency swap ? How does currency swap reduce exposure to risk ?
10. Discuss the important economic functions performed by the derivative markets.
11. Illustrate 'in-the-money' and 'out-of-the money' positions in both call option and put option.
12. Futures contracts are improvised forward contracts-Do you agree ? Explain.
13. What is basis and basis convergence ?

(6 × 3 = 18 weightage)

**Turn over**

**Part C**

*Answer any two of the following.  
Each question carries 6 weightage.*

14. "Hedging is to provide insurance against adverse fluctuations in the price movements" Do you agree? Discuss the statement with the help of suitable examples.
15. What do you understand by marking-to-the-market? Explain its purpose with suitable example.
16. Explain the functions which the banks or financial institutions discharge in a swap deal.

(2 × 6 = 12 weightage)