M. B. A. (Banking & Finance) (Sem. IV) (CBCS)
Examination
March / April - 2019
Risk Management

Time : **3** Hours]   [Total Marks : **70**

1   Explain the features of option. What are the limitations of options contract ?

2   What are the major differences between an interest rate swap and a currency swap ?

OR

2   A stock is currently priced at Rs. 100. It is known that in the first 3 months from now the prices can either go up by 10% or fall by 10%. Further in the next 3 months again the prices may either go up by 10% or fall by 10%. If the risk free interest rate is 9% p.a., find the value of a European Call and Put option with an exercise price of Rs. 95 and a maturity of 6 months.

3   What do you understand by risk and what are the different ways of classifying and managing them ?

OR

3   What is a derivative ? Which type of derivatives are popular in India and explain them briefly.

4   Explain how index futures can be used for speculation.

OR

4 From the following data for certain stock, find the value of call option using Black Scholes Model.

Current price of stock Rs. 225

Exercise price Rs. 210

Standard deviation 0.45

Maturity period 3 months

Annual Interest Rate 10%(C.C)

$e^{0.10 \times 0.25} = 1.0253$

Ln $1.0714 = 0.068993$

The following is the extract of table entries representing area under the standard normal curve from 0 to the specified value of z.

z	0	1	2	3	4	5	6	7	8	9
0.3	.1179	.1217	.1255	.1293	.1331	.1368	.1406	.1443	.1480	.1517
0.5	.1915	.1950	.1985	.2019	.2054	.2088	.2123	.2157	.2190	.2224

5 Write short notes on : (any two)

(a) Spread order

(b) Binomial model

(c) American options.

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