



Seat No. _____

HB-19MBA407
M. B. A. (Sem. IV) (CBCS) Examination
April - 2023
Risk Management

Time : $2\frac{1}{2}$ Hours / Total Marks : 70

Instruction : All questions carry equal marks.

- 1 What is meant by risk management ? Explain with the help of suitable examples how do we benefit from it.
- 2 How would you convert a Floating rate liability into a fixed rate liability using a swap ? Draw a schematic diagram to explain your answer.

OR

- (a) Rakesh is bullish about SBI stock which trades in the spot market at Rs. 510. He buys 10 three-month call option contracts on SBI with a strike of 525 at a premium of Rs. 1.27 per call. Three months later, SBI closes at Rs. 545. Assuming 1 contract = 50 shares, find his profit or loss.
 - (b) What are the benefits of trading in Index Futures compared to any other security ?
- 3 What is a derivative ? Why derivatives are popular with investors worldwide ? Briefly discuss the Indian scenario.

OR

AXT Ltd. share is currently priced at Rs. 475. It is predicted that in the next 3 months from now prices will either rise by 20% or go down by 20%. Further in the next 3 months prices may again go up by 20% or go down by 20% in the second step. If the Risk-free rate is 10% continuous compounding and strike price is Rs. 600. Using Binomial model calculate the value of call and put option as per European Method.

4 What are the merits and demerits of forward contract ?

OR

SimTech Ltd. stock is currently selling for Rs. 655. There is a call option on SimTech Ltd. with a maturity of 3 months and an exercise price of Rs. 645. The volatility in the stock price is estimated to be 25%. The risk-free rate is 8.5%. Calculate the price of a call option using Black-Scholes Model. You can use the following values and table

$$e^{0.085 \times (3/12)} = 1.021477$$

$$\text{Ln } 1.01550 = 0.015385$$

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
0.2	0.793	.0832	.0871	.0910	.0948	.0987	.1026	.1064	.1103	.1141
0.3	.1179	.1217	.1255	.1293	.1331	.1368	.1406	.1443	.1480	.1517

5 Write short notes on : (any two)

- (a) Long straddle
 - (b) European Options
 - (c) ITM, ATM and OTM (in terms of options)
 - (d) Short Strangle
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