

**C 3558**

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**Name**

**Reg. No.** .....

**FOURTH SEMESTER M.Com. DEGREE EXAMINATION, JUNE 2016**

**(CUCSS)**

**MC 4E (FM) 04—FINANCIAL DERIVATIVE**

**(2010 Admission onwards)**

**Maximum : 36 Weightage**

**Time : Three Hours**

**Part A**

*Answer **all** questions.*

*Each question carries 1 weightage.*

1. Define a forward contract.
2. What is Open interest ?
3. What is Basis ?
4. What is Convergence ?
5. What is at-the-money call option ?
6. What is forward rate differential?

**(6 x 1 = 6 weightage)**

**Part B**

*Answer any **six** questions.*

*Each question carries 3 weightage.*

7. Distinguish between hedgers and speculators in the derivatives market.
8. Explain the relationship between the spot price and the forward price of an investment asset.
9. What is covered interest arbitrage ? Illustrate with an example.
10. Explain marking-to-market.
11. What is cash-and-carry arbitrage ? Illustrate with an example.
12. What is a put option ? Explain how the intrinsic value and the time value of a put option are estimated.
13. Explain the **Black-Scholes** option pricing formula for :
  - (a) Call option.
  - (b) Put option.
14. Describe the uses of currency swaps.

**(6 x 3 = 18 weightage)**

**Turn over**

## Part C

C 3'

*Answer any two questions.*

*Each question carries 6 weightage.*

15. "Derivative securities and their trading have much significance in the modern economy environment". Discuss.
16. 'What is the need of margin system in future trading ? Explain the margin system followed in futures trading.
17. What is meant by time value of a call option ? Describe the factors influencing the time value of an option.

(2 x 6 12 weightage)