

Online Examinations (Even Sem/Part-I/Part-II Examinations 2020 - 2021)

Course Name - --Basic Derivatives

Course Code - BCM605A

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Answer all the questions. Each question carry one mark.

9. 1. Financial risk does not include-

Mark only one oval.

- Interest rate
- Credit terms
- Exchange rate
- Marketing mix

10. 2. Following model is not included in exchange rate equivalency model

Mark only one oval.

- International Fletcher effect
- International Fisher effect
- Interest rate parity theory
- Expectation theory

11. 3. Exchange rate risk excludes-

Mark only one oval.

- Transaction risk
- Economic risk
- Transportation risk
- Translation risk

12. 4. Financial derivatives does not include

Mark only one oval.

- swaps
- options
- futures
- loans

13. 5. A future contract is not-

Mark only one oval.

- Priced using tricks
- A standard contracts
- Protection against downside risk
- tradable

14. 6. The payoffs for financial derivatives are linked to

Mark only one oval.

- securities that will be issued in the future
- the volatility of interest rates
- previously issued securities
- government regulations specifying allowable rates of return

15. 7. Following is not a financial derivative

Mark only one oval.

- Stock
- Futures
- options
- Forward contract

16. 8. Derivatives are traded in the market-

Mark only one oval.

- Assets backed market
- Cash flow backed market
- Mortgage backed market
- Derivative securities market

17. 9. Situation in which Investor borrows large portion of money from broker for investment is known as-

Mark only one oval.

- Futures Investment
- Forward Investment
- Leveraged Investment
- Non leveraged investment

18. 10. Standardised futures contract exists for all except

Mark only one oval.

- Common stock
- Stock Index
- Treasury bills
- Gold

19. 11. Identify false statement from the followings-

Mark only one oval.

- Futures contracts allow fewer delivery options than forward contracts.
- Futures contracts are more liquid than forward contracts
- Futures contracts trade on a financial exchange
- Futures contracts are marked to market

20. 12. Imperfect hedging in futures market occurs due to

Mark only one oval.

- Perishable nature of commodity
- Non availability of product in the spot market
- Mismatch of commodity with underlying commodity of futures
- Price increase of commodity in spot market

21. 13. In commodity futures cost of warehousing and insurance of commodity is 's' rupees. Spot price of underlying asset is S_0 . 't' is the period of futures. 'r' is financial interest rate. Then use following formula for pricing of futures.

Mark only one oval.

- $F = S_0(1+r)^n$
- $F = S_0(r+d)^n$
- $F = (S_0+s)^n$
- $F = (S_0)e^{(r+s)n}$

22. 14. Short hedging on commodity futures will mean

Mark only one oval.

- Buy futures & underlying asset
- Buy underlying asset and sell futures
- Sell futures & underlying asset
- Sell underlying asset and buy futures

23. 15. Existence of Basis risk in futures will make hedging

Mark only one oval.

- perfect
- Imperfect and loss
- Imperfect and profit
- Both Imperfect and loss and Imperfect and profit

24. 16. If $\text{Cov}_{FS} = 1$, $\sigma_F = \sigma_S$ then optimal hedge ratio is-

Mark only one oval.

- less than one
- greater than one
- equal to one
- any value is possible

25. 17. Spot market speculations have limitations like-

Mark only one oval.

- Huge fund requirements
- High risk
- Short sale not possible
- All of these

26. 18. When speculator expects fall in price, he can speculate by

Mark only one oval.

- Long futures and short on underlyings at t_0
- Long on futures at t_0 and short the same at t_1
- Short on futures at t_0 and then long the same at t_1
- Long on underlyings at t_0 and short on futures at t_0

27. 19. Strike price in option is defined as-

Mark only one oval.

- Market price of underlying asset
- Market price of option
- Exercise price
- Premium

28. 20. Value of a put option is [X=exercise price, S=spot price, P=premium]

Mark only one oval.

$\text{Max}(0, X-S)-P$

$P-\text{Max}(0, X-S)$

P

X-S

29. 21. No adjustment will be made in the option on-

Mark only one oval.

Payment of cash dividend

Bonus issue

Stock split

None of these

30. 22. Lower band of put premium is given by zero or

Mark only one oval.

$S_0 - Xe^{-rt}$

$X.e^{-rt} - S_0$

$Xe^{-rt} - S_0$

$S_0 - Xe^{-rt}$

31. 23. Tick size in INDEX futures is

Mark only one oval.

- Minimum contract size
- Minimum contract value
- Minimum price change allowed in contract
- Minimum margin required

32. 24. Profit/loss curve of put buyer and writer are

Mark only one oval.

- Rising, falling
- Falling, rising
- Mirror image
- Any combinations are possible

33. 25. Tailor made options are known as

Mark only one oval.

- OTC option
- Exchange traded option
- American option
- European option

34. 26. Minimum value of call option is

Mark only one oval.

- Spot price
- Exercise price
- Present value of exercise price
- None of these

35. 27. Value of an option is calculated by using

Mark only one oval.

- PPT theory
- Put call parity theory
- Carry cost model
- Binomial model

36. 28. Option delta represents sensitivity of option price with respect to change in

Mark only one oval.

- Price of underlyings
- Change of time
- Change in risk free interest
- Change in volatility

37. 29. Theta value in option indicates sensitivity of option price due to-

Mark only one oval.

- Change in asset price
- Time left for maturity
- Price of underlyings
- Change in market interest

38. 30. Factors affecting option price includes-

Mark only one oval.

- Price of underlying
- Expiry time left
- Exercise price of option
- All of these

39. 31. Merton Model for option valuation is modification of black schole model. It has helped in the removal of folowing assumption of Black-Schole model

Mark only one oval.

- Log normal price distribution not required
- Applicable on American call option
- Dividend payment within expiry period is possible
- None of these

40. 32. Pay off of financial derivative is linked to-

Mark only one oval.

- Securities that will be issued in future
- Securities that are already issued
- Volatility of interest rate
- Allowable rate of return specified by government

41. 33. Bank manager by hedging can

Mark only one oval.

- Reduce interest rate risk
- Increase investment risk
- Increase exchange rate risk
- Increases probability of gain

42. 34. Hedging risk for a long position requires-

Mark only one oval.

- Taking a short position
- Taking a second long position
- Taking both short and long position of equal amount
- Taking a neutral position

43. 35. Investor having short contract is known as-

Mark only one oval.

- Sell securities in future
- Buy securities in future
- Hedge in the futures
- Close out his position in the futures

44. 36. Hedging in futures market eliminates

Mark only one oval.

- Scope of future gain
- Eliminates future loss
- Eliminate both loss and profit making opportunities
- Increases earning potential of portfolio

45. 37. An option that can be exercised at any time upto maturity is known as-

Mark only one oval.

- SWAPS
- American option
- European option
- Stock option

46. 38. Suppose a futures contract will expire in June. Which particular action will offset long position

Mark only one oval.

- Hold Futures until it expires
- Sale futures contract
- Buy a new futures contract that expires in June
- Buy a futures contract regardless of its expiration date

47. 39. Which one of the following is most similar to stock broker?

Mark only one oval.

- Local
- Future commission merchant
- Pit broker
- Floor broker

48. 40. Using futures contract to diversify price risk is known as-

Mark only one oval.

- Hedging
- Speculating
- Arbitraging
- Diversifying

49. 41. Which one will cause increase in futures price when other factors are held constant

Mark only one oval.

- Higher income received while carrying the underlying asset
- Lower expected spot price for underlying asset
- Lower risk free return
- Higher expected spot price for underlying asset

50. 42. A call option has strike price of Rs.45. It is bought at Rs.4. If spot price of underlying stock is Rs.42, estimate profit/loss

Mark only one oval.

- 3
- 3
- 4
- 7

51. 43. Consider buying of put option, probability that a buyer would have negative payoff increases with the

Mark only one oval.

- increase in stock price
- decrease in stock price
- increase in maturity duration
- decrease in maturity duration

52. 44. When price of underlying asset increases then good option is

Mark only one oval.

- buy the call option
- sell the call option
- buy the put option
- sell the put option

53. 45. Up front fees paid by buyer to seller in option is known as-

Mark only one oval.

- Call premium
- Discount premium
- Strike premium
- Exercise premium

54. 46. An investor has purchased 100 shares of a company. Buy price is Rs.30. In next 8 month price has increased to Rs.40. He has the risk of potential downfall in price. So his strategy of hedging this risk is-

Mark only one oval.

- Sell call on share
- Buy call on share
- Sell put on share
- Buy put on share

55. 47. Investor has purchased 100 shares of a company. Also he has purchased one lot of puts. A lot consists of 40 shares. Strike price is Rs.50. Premium is Rs.3 per share. Suppose on maturity the spot price of share is Rs.60. His profit/loss is

Mark only one oval.

- Loss of Rs.3 per share
- Gain of Rs. 4 per share
- Gain of Rs.7 per share
- Loss of Rs.7 per share
- North American Foreign Trade Agreement

56. 48. Investor has purchased 100 shares of a company. Also he has purchased one lot of puts. A lot consists of 40 shares. Premium is Rs.3 per share. At what price, market will break even

Mark only one oval.

- Rs.33
- Rs.37
- Rs.40
- Rs.47

57. 49. An investor has sold 100 shares of companyX. at Rs.62. Also he has purchased equivalent call at a premium of Rs.2 per share. On maturity he has purchased shares at rs.65. His profit/loss is-

Mark only one oval.

- Rs.2
- Rs.3
- Rs.5
- +Rs.5

58. 50. An investor is long on 100 shares of X at Rs.51. He writes equivalent call on X. Strike price is Rs.55 and premium is Rs.2. He will attain break even at

Mark only one oval.

- Rs.49
- Rs.51
- Rs.53
- Rs.55

59. 51. Which one is true for SWAPTION

Mark only one oval.

- Two derivative contract Swaps and Option
- Right to enter into Swaps at the expiry of option
- Helpful for a firm paying fixed rate on borrowings and anticipate rise in future interest rate
- Helpful for a firm paying floating rate on borrowing and anticipate fall in interest rate in future

60. 52. Write covered call is a strategy used by-

Mark only one oval.

- Long in share & long in call
- Long in share & write in call
- Long in share & long in put
- Long in share & write in put

61. 53. Bull spread strategy is used in a

Mark only one oval.

- Booming market
- Bearish Market
- Stable Market
- Under any situation

62. 54. In bull spread strategy maximum profit and maximum loss are-----

Mark only one oval.

- Limited, unlimited
- Limited, Limited
- Unlimited, limited
- Unlimited, unlimited

63. 55. Suppose a person has decided to apply bull spread strategy. He has purchased two out-of-the-money call options. Then his investment is..... & possibility of making profit is.....

Mark only one oval.

- High, low
- Low, high
- High, high
- Low, low

64. 56. An investor buys for Rs 3 a call with a strike price of Rs 30 and sells for rupee 1 a call with strike price of Rs 35. Calculate break even price of stock on maturity.

Mark only one oval.

- Rs.28
- Rs.30
- Rs.32
- Rs.35

65. 57. Long Straddle is formed by a call and.....put with same maturity and strike price

Mark only one oval.

- Buy, write
- Buy, buy
- Write, write
- Write, buy

66. 58. Long Strangle is formed by buying a call at..... strike price and buying a put at strike price

Mark only one oval.

- Higher, lower
- Lower, higher
- Higher, higher
- Lower, lower

67. 59. In Straps strategy speculator will buycall andput

Mark only one oval.

One, One

One , two

Two, one

Two, two

68. 60. In Strips strategy speculator will buycall andput

Mark only one oval.

One, one

One, two

Two, one

Two, two

69. 61. In bull spread, maximum profit is----- and maximum loss is -----

Mark only one oval.

Limited, limited

Limited, unlimited

Unlimited, limited

Unlimited, unlimited

70. 62. In long butterfly, we use-

Mark only one oval.

- One call and one put with different strike price
- One call and one put of same strike price
- Three calls of different strike price
- Two calls and one put of different strike price

71. 63. In condor we use ----- calls of different strike price

Mark only one oval.

- Two
- Three
- Four
- More than four

72. 64. Suppose there are four calls with strike price X_1 , X_2 , X_3 and X_4 . If condor strategy is used the speculator will -

Mark only one oval.

- Buy two calls of X_1 and X_2 and sell two calls of X_3 and X_4
- Sell two calls of X_1 and X_2 and buy two calls of X_3 and X_4
- Buy two calls of X_1 and X_3 and sell two calls of X_2 and X_4
- Sell two calls of X_1 and X_3 and buy two puts of X_2 and X_4

73. 65. In Bermudan option right can be exercised on-

Mark only one oval.

- maturity
- any time before maturity
- predetermined time
- Any time before and on maturity

74. 66. Reduction of volatility in share price will cause-

Mark only one oval.

- reduction in premium
- Minimization of risk
- Minimization of loss
- None of these

75. 67. Amount of money involved in swap transaction is classified as

Mark only one oval.

- Notional principal
- Swap principal
- Transaction principal
- Time value of swaps

76. 68. Agreement between two parties to exchange cash flows in future and cash flows are based on underlying instruments is classified as

Mark only one oval.

- swaps
- interchange
- exchange
- index

77. 69. Interest-rate swaps are:

Mark only one oval.

- Exchanges of equity securities for debt securities
- Agreements between two parties to exchange periodic interest-rate payments over some future period
- Agreements involving swapping of option contracts
- Agreement that allow both parties to convert floating interest into fixed rate

78. 70. If you purchase a Rs.100,000 interest-rate futures contract for 105, and the price of the Treasury securities on the expiration date is 108

Mark only one oval.

- your profit is Rs.3000
- your loss is Rs.3000
- your profit is Rs.8000
- your loss is Rs.8000

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