BRAINWARE UNIVERSITY

Term End Examination 2024-2025
Programme – MBA-2023
Course Name – Financial Derivatives and International Finance
Course Code - FM402
(Semester IV)

Full Marks : 60 **Time : 2:30 Hours**

[The figure in the margin indicates full marks. Candidates are required to give their answers in their own words as far as practicable.]

Group-A

(Multiple Choice Type Question) 1 x 15=15

1. *Choose the correct alternative from the following :*

(i) Both party gets and pays cash in derivatives. It is observed in.

a) Forward b) Futures
c) Options d) SWAPS

(ii) Apply your knowledge to write the correct expression of Forward Rate Agreement that is undertaken today, but Loan will be taken after 2months for atenure of 6 months.

a) 0 X 2 FRA b) 2 X 6 FRA
c) 2 X 8 FRA d) 0 X 8 FRA

(iii) Associate with the theories that describes the method of calculating Interest rate in FRA.

a) Theory of absolute advantage b) Term structure theory
c) Interest rate parity d) Fisher's international effect

(iv) Judge from the given alternatives correct procedure of neutralizing default risk by clearing house of derivative market neutralises default risk.

a) takes written guarantee b) blocks required amountin the bank account
c) takes margin d) marks margin on daily basis

(v) Apply your ideas to choose the exact time of making margin call.

a) if margin is reduced b) if margin is zero
c) if margin balance is less than maintenance margin d) any time when needed

(vi) Evaluate statements related with a future contract and select the most appropriate one.

a) Priced using tricks b) A standard contracts
c) Protection against downside risk d) tradable

(vii) State the name of a contract involving exchange of underlying asset in future at a specified price.

a) Present contract b) Spot contract

c) Future contract d) Derivative contract

(viii) Identify item for which stadardised futures contract does not exist.

a) Common stock b) Stock Index
c) Treasury bills d) Gold

(ix) Strike price in option is defined as.

a) Market price of underlying asset b) Market price of option
c) Exercise price d) Premium

(x) Show the nature of Profit/loss curve of put buyer and writer.

a) Rising, falling b) Falling, rising
c) Mirror image d) Any combinations are possible

(xi) Identify tailor made options from the alternatives shown below.

a) OTC option b) Exchange traded option
c) American option d) European option

(xii) Show that minimum value of call option is______.

a) Spot price b) Exercise price
c) Present value of exercise price d) Sunk cost

(xiii) 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. Analyse it and calculate break even price of stock on maturity.

a) Rs.28 b) Rs.30
c) Rs.32 d) Rs.35

(xiv) Analyse the situations given in the question infer whether they are responsible for imperfect hedge.

a) quality mismatch b) quantity mismatch
c) time mismatch d) all of these

(xv) Analyze the difference between lognormal distribution and normal distribution and select the correct alternative for normal distribution.

a) Only positive value b) Only negative value
c) Zero value d) Positive, negative or zero all are possible

Group-B

(Short Answer Type Questions) 3 x 5=15

2. Define derivatives. (3)
3. Describe concept of forward contract in brief. (3)
4. Apply your knowledge to explain in-the-money situation for call option and put option. (3)
5. Options are formed to overcome limitations of futures. Analyse this statement. (3)
6. Margin is needed in option in some situations. Evaluate this statement. (3)

OR

Criticize Multinational Cash Management practices in global corporations. (3)

Group-C

(Long Answer Type Questions) 5 x 6=30

7. Describe the concept of spread strategy. (5)
8. Explain the Principles of BOP accounting and components of BOP. (5)
9. Illustrate the Foreign Exchange Rate Determination Process and Analyse the Factors Influencing Exchange Rate Fluctuations. (5)
10. Analyse Different Terms Used in Options Trading, Including Payoff, Intrinsic Value, and Extrinsic Value. (5)
11. Distinguish Between Currency Risk and Interest Rate Risk in International Finance and Analyse their Implications for Businesses. (5)
12. Appraise the Role of Foreign Direct Investment (FDI) in Driving Economic Growth and Discuss its Impact on Host and Home Countries. (5)

OR

Appraise the Role of Plain Vanilla Swaps in Managing Interest Rate Risk and Discuss their Application in Corporate Finance. (5)

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