BRAINWARE UNIVERSITY

Term End Examination 2023-2024
Programme – MBA-2022
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) Identify the century when evidence of first derivative was observed.

a) 20 th century b) 19th century
c) in Greek History d) 500 years back

(ii) Select the term where only profit is made-

a) hedging b) speculation
c) arbitraging d) all of these

(iii) Choose true statement for speculators

a) He wants to minimize risk b) he wants to make profit
c) he has to undertake risk d) large investment is required

(iv) State minimum networth of a member involved in derivative trading as recommended by Gupta committee.

a) 1crore b) 3crores
c) 5crores d) 10croes

(v) Trace from the alternative given below, that does not show the Features of Forward contract.

a) exchange trading b) no third party
c) no speculation d) zero sum game

(vi) Choose the correct alternative of fixing an interest rate floor in currency swaps.

a) A maximum rate on floating interest rate payments b) A maximum rate on fixed interest rate payments.
c) A minimum rate on floating interest rate payments d) A minimum rate on fixed interest rate payments.

(vii) Select limitations of forward from the alternatives stated below-

a) indivisibility b) default risk
c) no speculation d) all of these

(viii) Identify the property that is not applicable in commodity futures-

a) no consumption cost
b) short in life
c) limited supply due to weather dependence
d) difficult to deliver and settle

(ix) Determine factor not included in Financial risk-

a) Interest rate
b) Credit terms
c) Exchange rate
d) Marketing mix

(x) Identify the item not considered as underlying asset in Financial derivatives

a) Bond
b) share
c) futures
d) none of these

(xi) Analyse the consequence of hedging by bank manager.

a) Reduce interest rate risk
b) Increase reinvestment risk
c) Increase exchange rate risk
d) Increase probability gain

(xii) Evaluate the strategies given below and select the strategy used for Short hedging on commodity futures.

a) Buy futures & underlying asset
b) Buy underlying asset and sell futures
c) Sell futures & underlying asset
d) Sell underlying asset and buy futures

(xiii) Evaluate the existence of Basis risk in futures on hedging

a) perfect
b) Imperfect and loss
c) Imperfect and profit
d) Both (b) and (c)

(xiv) Examine Spot market speculations conclude on the limitations of this technique.

a) Huge fund requirements
b) High risk
c) Short sale not possible
d) All of them

(xv) Analyse the concept of purchasing power parity (PPP)

a) It suggests that exchange rates between two countries adjust to equalize the purchasing power of their currencies
b) It states that interest rate differentials between two countries determine exchange rates
c) It asserts that inflation rates affect the exchange rates between two countries
d) It proposes that government interventions are the primary drivers of exchange rate movements

Group-B

(Short Answer Type Questions) 3 x 5=15

2. Describe the difference between domestic and international finance. (3)
3. Explain the concept of Hedger. (3)
4. Write different time dimensions used in a forward contract. (3)
5. Speculators creates liquidity in derivative market. Evaluate this statement. (3)
6. A contract made today is executed in future. Analyse it and connect it with derivatives. (3)

OR

Analyse importance of optimum hedge ratio. (3)

Group-C

(Long Answer Type Questions) 5 x 6=30

7. Describe the differences between Domestic and International Finance. (5)
8. Define future contract with example (5)
9. Distinguish Interest Rate Parity (IRP) from Purchasing Power Parity (PPP) and Analyse their Roles in Foreign Exchange Markets. (5)
10. Evaluate the Advantages of Options Contracts and Discuss their Role in Hedging and Speculation Strategies. (5)
11. Consider the Factors Influencing Multinational Capital Budgeting Decisions and Evaluate their Impact on Investment Strategies. (5)

12. Criticize the Assumptions of the Black-Scholes Model and Discuss its Limitations in Valuing Options Contracts. (5)

OR

Analyse the Concepts of Risk and Exposure in International Finance and Discuss their Significance. (5)

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