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PSG COLLEGE OF ARTS & SCIENCE
(AUTONOMOUS)

BCom DEGREE EXAMINATION MAY 2022
(Sixth Semester)

Branch – **COMMERCE (ACCOUNTING AND FINANCE)**

FINANCIAL DERIVATIVES

Time: Three Hours Maximum: 75 Marks

SECTION-A (10 Marks)
Answer **ALL** questions
ALL questions carry **EQUAL** marks (10 x 1 = 10)

1. The payoffs for financial derivatives are linked to
   (a) Securities that will be issued in the future.
   (b) The volatility of interest rates.
   (c) Previously issued securities.
   (d) Government regulations specifying allowable rates of return.

2. Hedging risk for a short position is accomplished by
   (a) Taking a long position.
   (b) Taking another short position.
   (c) Taking additional long and short positions in equal amounts.
   (d) Taking a neutral position.

3. Forward contracts are of limited usefulness to financial institutions because
   (a) Of default risk. (b) It is impossible to hedge risk.
   (c) Of lack of liquidity. (d) Both (a) and (c) of the above.

4. To say that the forward market lacks liquidity means that
   (a) Forward contracts usually result in losses.
   (b) Forward contracts cannot be turned into cash.
   (c) It may be difficult to make the transaction.
   (d) Forward contracts cannot be sold for cash.

5. Futures markets have grown rapidly because futures
   (a) Are standardized.
   (b) Have lower default risk.
   (c) Are liquid.
   (d) All of the above.

6. Futures contracts are regularly traded on the
   (a) Chicago Board of Trade. (b) New York Stock Exchange.
   (c) American Stock Exchange. (d) Chicago Board of Options Exchange.

7. Options on futures contracts are referred to as
   (a) Stock options. (b) Futures options.
   (c) American options. (d) Individual options

8. An option that gives the owner the right to sell a financial instrument at the exercise price within a specified period of time is a
   (a) Call option. (b) Put option.
   (c) American option. (d) European option.

9. A swap that involves the exchange of a set of payments in one currency for a set of payments in another currency is a(n)
   (a) Interest rate swap. (b) Currency swap.
   (c) Swaptions. (d) National swap.

Cont...

10. A firm that sells goods to foreign countries on a regular basis can avoid exchange rate risk by
(a) Buying stock options. (b) Selling puts on financial futures.
(c) Selling a foreign exchange swap. (d) Buying swaptions.

SECTION - B (35 Marks)
Answer **ALL** Questions
ALL Questions Carry **EQUAL** Marks (5 x 7 = 35)

11. a) Explain the features of derivatives?
(OR)
b) Discuss the difference between commodity derivatives & Financial derivatives?

12. a) Explain the advantages and disadvantages of forward contract?
(OR)
b) Write short note on i) Spot market ii) Forward Contract.

13. a) What are the features of future contract and explain uses?
(OR)
b) State the interest rate future?

14. a) Describe the i) Option contract ii) Future contract and iii) Forward contract.
(OR)
b) How to trading in call options and put options?

15. a) Explain the features of swaps contract?
(OR)
b) List out the i) Interest rate swaps ii) Currency and iii) Equity swaps

SECTION - C (30 Marks)
Answer any **THREE** Questions
ALL Questions Carry **EQUAL** Marks (3 x 10 = 30)

16. Outline the various participants in derivative market with suitable examples.
17. Briefly explain the classification of forward contracts.
18. Evaluate the pricing of futures contract.
19. How to determine the option pricing? Give suitable examples?
20. Explain the economic functions of swaps transactions.

Z-Z-Z END