JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

PGDM / PGDM (M) / PGDM (SM)

V TRIMESTER (Batch 2016-18)

MID TERM EXAMINATIONS

Course Name	Financial Derivatives & Risk Management (FDRM)	Course Code	FIN402
Max. Time	1 Hours	Max. Marks	20

INSTRUCTIONS:
- **Attempt all Questions**
- **Scientific/ financial calculator/Normal Distribution table is allowed**

Q1. A-2-month call option on the Infosys with strike price of Rs. 2100 is selling for Rs. 160 when the share is trading at Rs. 2200. Find out the following: - (1X 6= 6MARKS)

    a. What is the intrinsic worth of the call option?

    b. Why should one buy the call for a price in excess of intrinsic worth?

    c. Under what circumstances the option holder would exercise his call?

    d. At what price of the asset the call option holder would break even?

    e. If the price of Infosys becomes Rs. 2150 (lower than the break-even price), should the option holder exercise the call option?

    f. What is the payoff of the holder and writer if the price of Infosys share is Rs. 2000, Rs. 2250 and Rs. 2500 on the date of expiry of the option?

Q2. The put on a stock with strike price of Rs. 460 is selling for Rs. 15, while another put on the same stock with strike price of Rs. 475 is selling for Rs. 32. Both the puts have the same maturity. Do you find prices of the two puts to be appropriate? Can you benefit from the situation? If yes, how? (4 MARKS)

Ques 3. P decides to create a 'Bull spread' by way of buying a February 2003 call option on a stock, with an exercise price of Rs. 100 for Rs. 5 and selling a call option on it involving an exercise price of Rs. 110 for Rs. 2. find out how much profit / loss he makes in each of the following conditions: (5 MARKS)

    (i)   On settlement day, the price of the underlying stock is Rs. 95 per share.

    (ii)   On settlement day, the price of the underlying stock is Rs. 106 per share.

    (iii)   On settlement day, the price of the underlying stock is Rs. 113 per share.