JAIPURIA INSTITUTE OF MANAGEMENT
LUCKNOW NOIDA JAIPUR INDORE

JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

PGDM / PGDM (M) / PGDM (SM)

FIFTHTRIMESTER (Batch 2016-18)

END TERM EXAMINATIONS, JANUARY 2018

Course Name	Financial Derivatives & Risk Management	Course Code	FIN504
Max. Time	**2 hours**	Max. Marks	**40 MM**

INSTRUCTIONS: All Questions are compulsory

Ques1 a)An airline executive has argued: "there is no point in our using oil futures. There is just as much chance that the price of oil in the future will be less than the futures price as there is that it will be greater than this price.'Discuss the executive's viewpoint 5 Marks

b. An investor bets a substantial change in the price of a stock but is not sure of the direction in which the change would take place. Analyze the different strategies involving options could he adopt? Explain the strategies. 5 Marks

Ques 2 Using the following data, prepare the margin account of the trader

Position	LONG
Contract Size	500 units
Unit Price	Rs 1220
No. of Contracts	1
Initial Margin	10 percent
Maintenance margin	¾ths of intial margin
Closing Prices	June 3

Date : Jun 4, Jun 5, Jun 6, Jun 7, Jun 10, Jun 11, Jun 12

Price: 1200, 1210, 1290, 1230, 1215, 1185, 1195

a)Can the trader exit on June 7? Calculate his gain or loss .

b)When should one trade long position?

c)Prepare the margin account of the investor.

d)Calculate the initial Margin amount & Maintenance Margin amount

e)At what price margin call will be assigned to the Trader. 10 Marks

Ques 3)

i) A company has a $20 million portfolio with a beta of 1.2. It would like to use futures contracts on a stock index to hedge its risk. The index futures price is currently standing at 1080, and each contract is for delivery of $250 times the index. What is the hedge that minimizes risk?

ii) What should the company do if it wants to reduce the beta of the portfolio to 0.6?

7 Marks

b) Does a perfect hedge always succeed in locking in the current spot price of an asset for a future transaction? Explain your answer. 3 Marks

.Ques 4.a)You are the treasurer of a Japanese company exporting electronic equipment to the United States. Discuss how you would design a foreign exchange hedging strategy and the arguments you would use to sell the strategy to your fellow executives. 4 Marks

b)Evaluate the difference between entering into a long forward contract when the forward price is $50 and taking a long position in a call option with a strike price of $50? 3 Marks

c) A bank finds that its assets are not matched with its liabilities. It is taking floating-ratedeposits and making fixed-rate loans. How can swaps be used to offset the risk?

3 Marks