



# INSTITUTE OF AERONAUTICAL ENGINEERING

(Autonomous)  
Dundigal, Hyderabad-500043

## MASTER OF BUSINESS ADMINISTRATION

### TUTORIAL QUESTION BANK

Course Title	FINANCIAL DERIVATIVES				
Course Code	CMBB58				
Program	Master of Business Administration				
Semester	IV				
Academic Year	2019 - 2020				
Course Type	Theory				
Regulation	IARE - R18				
Course Structure	Lectures			Tutorials	
	Theory	Practical	Credits	Laboratory	Credits
	4	-	4	-	-
Chief Coordinator	Ms. S Shireesha, Assistant Professor				
Course Faculty	Ms. S Shireesha, Assistant Professor				

### COURSE OBJECTIVES:

The course should enable the students to:	
I	Understand fundamental linkages between spot markets and derivative markets and uses and misuses of derivatives.
II	Apply knowledge about basic option strategies, advanced option strategies, trading with options, hedging with options, currency options.
III	Analyze the commodity futures and options and swaps for the effectiveness of derivative markets
IV	Evaluate the role of swaps in terms of interest rate, currency, commodity, equity index, credit risk and credit.

### COURSE OUTCOMES (COs):

CMBB58.01	Understand the development and growth of derivative markets, types and uses of derivatives.
CMBB58.02	Examine the fundamental linkages between spot and derivatives market and role of derivative market.
CMBB58.03	Demonstrate the structure of forward and future markets and know the mechanics of future markets hedging strategies.
CMBB58.04	Elucidate the determination of forward, future prices, interest rates of currency futures and forwards.
CMBB58.05	Analyze the concept, structure and principles of option pricing and know the differences between options market and future market.
CMBB58.06	Elucidate the option pricing models like binomial model, the black model and scholes merton model.
CMBB58.07	Interpret the basic option strategies, advanced option strategies, trading with options and currency options.

CMBB58.08	Ability to gain the knowledge in different types of commodity futures and options.
CMBB58.09	Classify various types of swaps commodity exchanges, multi commodity exchange, national commodity derivatives exchange role, functions and trading.
CMBB58.10	Elucidate the concept and nature, evolution of swap market and features of swaps.
CMBB58.11	Differentiate major types of swaps like interest rate swaps, equity index swaps, credit risk in swaps credit swaps pricing and valuing swaps.

## TUTORIAL QUESTION BANK

UNIT- I				
INTRODUCTION TO DERIVATIVES				
Part - A (Short Answer Questions)				
S No	QUESTIONS	Blooms Taxonomy Level	Course Outcomes	Course Outcomes (COs)
1	State the various characteristic features of derivatives market in India?	Remember	CO 1	CMBB58.01
2	Bring out the development of financial derivatives in Indian markets?	Understand	CO 1	CMBB58.01
3	Discuss briefly about the various factors contribution towards the growth and development of derivatives?	Remember	CO 1	CMBB58.01
4	Which of the derivatives does not trade on the NSE's Futures and Options segment?	Understand	CO 1	CMBB58.01
5	Express about the Futures trading and where does it begin.	Understand	CO 1	CMBB58.01
6	Briefly Elucidate the regulations for trading derivatives.	Remember	CO 1	CMBB58.01
7	Narrate on over the counter derivative contracts.	Understand	CO 1	CMBB58.01
8	Describe the role of derivatives market in the changing business world?	Understand	CO 1	CMBB58.01
9	Discuss the growth and developments of derivatives in Indian context.	Remember	CO 1	CMBB58.01
10	Elucidate the different types of derivatives along with their features, in brief.	Remember	CO 1	CMBB58.01
11	Bring out the similarities and dissimilarities between Options and Swaps.	Remember	CO 2	CMBB58.02
12	Highlight the various functions of derivatives and its significance.	Understand	CO 2	CMBB58.02
13	'Future contracts are obligations, whereas options are rights'. Discuss?	Remember	CO 2	CMBB58.02
14	Discuss the significance of derivative markets.	Understand	CO 2	CMBB58.02
15	List out the participants in the derivative market?	Understand	CO 2	CMBB58.02
16	Elucidate the term 'derivatives', using suitable examples.	Remember	CO 2	CMBB58.02
17	Express about the underlying assets for a derivative instrument?	Understand	CO 2	CMBB58.02
18	Bring out the similarities and dissimilarities between Forwards and Futures.	Understand	CO 2	CMBB58.02
19	What are the various important features of derivatives?	Understand	CO 2	CMBB58.02
20	'Derivatives are effective risk management tools'. Justify.	Understand	CO 2	CMBB58.02
Part - B (Long Answer Questions)				
1	Discuss the growth and development of financial derivatives market in India in detail?	Remember	CO 1	CMBB58.01
2	Furnish the classification of derivatives based on the nature of i) Derivative instruments ii) Underlying asset iii) markets	Understand	CO 1	CMBB58.01
3	Narrate the useful economic functions of derivative instruments in the changing business world?	Remember	CO 1	CMBB58.01
4	Comment on the fundamental linkage existing between spot and derivative markets in detail?	Remember	CO 1	CMBB58.01
5	Elucidate the role of derivative market in economic development of a nation in general with regard to price discovery in particular.	Remember	CO 1	CMBB58.01
6	Express about the various uses and misuses of derivatives market in detail?	Remember	CO 1	CMBB58.01
7	Define derivatives. Discuss how financial derivatives use hedging strategies for managing risk?	Understand	CO 1	CMBB58.01
8	List out traders in derivatives markets? How do they differ from the participants in the derivatives market?	Understand	CO 1	CMBB58.01
9	"Derivatives are associated with different types of risks" elaborate?	Understand	CO 1	CMBB58.01
10	Compare and contrast over the counter contracts and exchange traded derivatives in derivatives market?	Understand	CO 1	CMBB58.01
11	"Financial derivatives are associated with certain myths and misconceptions" comment?	Remember	CO 2	CMBB58.02
12	Discuss the benefits to companies and institutional investors in derivatives market?	Understand	CO 2	CMBB58.02
13	Define law of one price. Discuss the assumptions of law of one price in derivatives market?	Understand	CO 2	CMBB58.02

14	Write the criticisms/Misuses of derivatives market which causes unstable market situations?	Remember	CO 2	CMBB58.02
15	Define hedging. State the different hedging strategies in derivatives market for managing risk?	Remember	CO 2	CMBB58.02
16	Can you think of a cash market in which options or futures could be useful but does not yet exist?	Remember	CO 2	CMBB58.02
17	Compare and Contrast the forward contracts and future contracts in derivatives market?	Understand	CO 2	CMBB58.02
18	Elucidate the classification of derivatives market based on the nature of derivative instruments.	Remember	CO 2	CMBB58.02
19	Briefly Elucidate about the most popular derivative instruments.	Remember	CO 2	CMBB58.02
20	Discuss about the different types of traders in derivatives market.	Remember	CO 2	CMBB58.02
<b>Part - C (Problem Solving and Critical Thinking Questions)</b>				
1	“One form of classification of derivative instruments is between commodity derivatives and financial derivatives” Elucidate with a neat diagram.	Apply	CO 1	CMBB58.01
2	“Derivatives are considered as risk management tools used by organizations/investors/individuals”- Comment.	Apply	CO 2	CMBB58.02
3	Examine the reasons for the growth of financial derivatives in India.	Understand	CO 1	CMBB58.01
4	Discuss the types of derivatives market based on the market in which they have been trading?	Remember	CO 2	CMBB58.02
5	Elucidate about derivative markets. Also discuss functions of derivative markets.	Remember	CO 1	CMBB58.01
6	Elucidate the role of derivatives market in economic development in risk management of business transactions.	Remember	CO 2	CMBB58.02
7	Elucidate about the various types of options. Who are the parties involved in option contract?	Understand	CO 1	CMBB58.01
8	Summarize the importance of the hedgers, speculators and arbitrageurs in derivative market.	Understand	CO 2	CMBB58.02
9	Elucidate about the trading mechanism of derivatives in India.	Understand	CO 1	CMBB58.01
10	Elucidate the classifications of derivatives that are trading in Indian derivative market.	Remember	CO 2	CMBB58.02
<b>UNIT-II</b>				
<b>FUTURE AND FORWARD MARKET</b>				
<b>Part – A (Short Answer Questions)</b>				
1	Express about a Forward contract? Elucidate using a suitable example.	Remember	CO 3	CMBB58.03
2	Briefly discuss the trading mechanism of the forward market.	Understand	CO 3	CMBB58.03
3	List the major features of forward contracts.	Remember	CO 3	CMBB58.03
4	Express about forward contract in derivatives market? Write the features of forward contracts?	Understand	CO 4	CMBB58.04
5	Briefly Elucidate the types of financial future contracts in derivatives contract?	Understand	CO 3	CMBB58.03
6	Express the functions of futures contract in derivatives market in India?	Remember	CO 4	CMBB58.04
7	Express advantages of forward contracts and future contracts in derivatives market in detail?	Understand	CO 3	CMBB58.03
8	Discuss the various types of hedges in futures contracts in derivatives market?	Understand	CO 4	CMBB58.04
9	Express about hedge ratio? Discuss the two methods for calculating the hedge ration in derivatives market?	Remember	CO 3	CMBB58.03
10	Discuss the different types of interest rates in interest rate futures in derivatives market?	Remember	CO 3	CMBB58.03
11	Elucidate in detail about Forward rate agreement (FRA) in forward contract in derivatives market.	Remember	CO 3	CMBB58.03
12	Write a note on i) currency futures ii) currency forwards	Understand	CO 3	CMBB58.03
13	Briefly Elucidate about the trading mechanism of forward contract in derivatives market?	Remember	CO 3	CMBB58.03
14	Write a note on i) treasury bills futures ii) LIBOR	Understand	CO 4	CMBB58.04

15	Estimate the important terms used in trading forward contract?	Understand	CO 3	CMBB58.03
16	Elucidate the statement: "Forwards are zero-sum games".	Remember	CO 4	CMBB58.04
17	Write a brief note on cost of carry model in pricing forward contracts.	Understand	CO 3	CMBB58.03
18	What is the risk that can be avoided through use of only futures contract and not forwards?	Understand	CO 4	CMBB58.04
19	List out any three limitations of forward contract.	Understand	CO 3	CMBB58.03
20	Briefly Elucidate the mechanism of forward contract.	Understand	CO 3	CMBB58.03
<b>Part - B (Long Answer Questions)</b>				
1	Express about forward contract in derivatives market. Write a note on the forward rate agreement in forward contract in derivatives market?	Remember	CO 3	CMBB58.03
2	Determine the pay off in a forward contract in derivatives market for long and short position? Elucidate with the help on a diagram.	Understand	CO 4	CMBB58.04
3	Express about the features of forward contract in derivatives market? State the advantages and disadvantages of forward contract in derivatives market?	Remember	CO 3	CMBB58.03
4	Define futures in derivatives market. Elucidate the structure and mechanism of the futures in derivatives market with a diagram.	Remember	CO 3	CMBB58.03
5	"Hedging is the basic functions of futures market". Discuss the statement in the light of uses of futures contract?	Apply	CO 3	CMBB58.03
6	Clearly discuss the application of forward contracts to manage commodity price risk in derivatives market?	Apply	CO 3	CMBB58.03
7	Discuss briefly about the pricing model for index futures and commodity futures in derivative contract?	Understand	CO 3	CMBB58.03
8	Express the different types of interest rates? Elucidate the applications of interest rate futures in detail.	Remember	CO 3	CMBB58.03
9	Express the various decisions involved regarding the hedging with currency futures contract?	Understand	CO 3	CMBB58.03
10	Elucidate the forward foreign exchange market. Write the important features of currency forward contract in detail?	Understand	CO 4	CMBB58.04
11	Discuss the types of forward contracts, according to the forward contracts act, 1952 in India?	Remember	CO 3	CMBB58.03
12	Express about futures contract in derivatives. Write the features of futures contract in derivatives?	Understand	CO 4	CMBB58.04
13	Elucidate the distinction between the futures and forward contracts in derivatives market.	Understand	CO 3	CMBB58.03
14	Express about payoff in derivatives market? Elucidate about payoff in long and short position.	Understand	CO 3	CMBB58.03
15	"Forward contracts act as fore-runners of futures market". Critically evaluate the statement in the light of growth of forward market worldwide.	Evaluate	CO 3	CMBB58.03
16	Narrate a detailed note on classification of forward contracts with examples.	Remember	CO 3	CMBB58.03
17	Bring out the ways through which a forward contract can be closed out. Discuss with suitable examples.	Remember	CO 3	CMBB58.03
18	Discuss the concept of valuation of forward contract in details with suitable illustrations.	Understand	CO 3	CMBB58.03
19	Elucidate the main advantages and disadvantages of forward contracts.	Understand	CO 3	CMBB58.03
20	Illustrate the use of forwards contract for hedging risk, using a suitable example.	Understand	CO 4	CMBB58.04
<b>Part - C (Problem Solving and Critical Thinking Questions)</b>				
1	The current price of wheat is Rs. 3.4 per bushel and interest rates are at 4%. The storage cost per one year runs at about 0.1 per bushel, which is to be paid up front. What is the 1 year forward price of wheat?	Analyze	CO 3	CMBB58.03
2	The current price of NIFTY is Rs.1500. the stock underlying this index provides a yield of 3% P.A. the continuously compounding rate of interest is 6%. What will be the price of 4 months NIFTY?	Analyze	CO 4	CMBB58.04
3	The spot price of silver is Rs.45 per ounce. The storage costs are Rs.0.34 per ounce P.A, payable quarterly in advance. Assuming that interest rates are 10% per annum for all maturities, calculate the price of silver for delivery in six months.	Analyze	CO 3	CMBB58.03
4	The shares underlying BSE-SENSEX (stock index) give annual yield of 4%. The current price of SENSEX is 11,500 and the three-month risk free rate is 6%	Apply	CO 4	CMBB58.04

	per annum. Find the value of three-month forward contract on SENSEX.												
5	Calculate the price of 100 forward contracts using the following information. Price of share Rs 75. Time to expiration 9months. Dividend expected Rs 2.20per share. Time to dividend 4 months. Continuously compounded risk free rate of interest is 12%.										Analyze	CO 3	CMBB58.03
6	Elucidate future contract specifications in detail. Elucidate about currency rate futures in derivatives market.										Understand	CO 4	CMBB58.04
7	From the following Table 1, prepare the margin account of the trader who has taken the long position: number of contracts- 1; number of units per contract- 50; price per unit on day 1- Rs.700; initial margin- 12%; maintenance margin- 75%.										Analyze	CO 3	CMBB58.03
	Day	1	2	3	4	5	6	7	8	9			
	Closing Price(Rs)	693	682	663	648	623	610	633	638	621			
8	Write a note on role of clearing house with special emphasis upon ‘delivery mechanism’ in futures market.										Understand	CO 4	CMBB58.04
9	Discuss the statement ‘The basic function of futures contract is hedging’.										Remember	CO 3	CMBB58.03
10	Express about the various types of stock index futures traded in Indian stock market. Discuss with specifications of each contract.										Understand	CO 4	CMBB58.04
UNIT -III													
BASIC OPTION STRATEGIES													
Part - A (Short Answer Questions)													
1	Express about options in derivatives market. Write the types of options in derivatives market?										Remember	CO 5	CMBB58.5
2	Write a note on i) American option ii) European option										Understand	CO 5	CMBB58.5
3	Briefly discuss the factors affecting option value.										Remember	CO 6	CMBB58.6
4	Narrate on the over the counter options in derivatives market in detail?										Understand	CO 5	CMBB58.5
5	Write a note on i Stock options ii Index options										Understand	CO 6	CMBB58.6
6	Express the different types of transaction costs that are involved in option trading in derivatives market?										Remember	CO 6	CMBB58.6
7	“A call option need not be exercised, its minimum value is zero” Elucidate										Understand	CO 6	CMBB58.6
8	Discuss the determinants of options pricing.										Understand	CO 6	CMBB58.6
9	Express about the basic principles of option valuation?										Remember	CO 5	CMBB58.5
10	Write a note on i Vanilla options ii Real options										Remember	CO 5	CMBB58.5
11	Elucidate the assumptions in Binomial Option pricing model in derivatives market.										Understand	CO 5	CMBB58.5
12	Discuss some of the bullish strategies in basic option strategies in options under derivatives market?										Remember	CO 5	CMBB58.5
13	State any two methods of the neutral strategies in advanced option strategies in options under derivatives market?										Understand	CO 6	CMBB58.6
14	Enumerate the advantages of option trading in derivatives market?										Understand	CO 5	CMBB58.5
15	Elucidate the various strategies used by the hedgers to manage their exposure to price risk.										Remember	CO 6	CMBB58.6
16	State some of the features of currency options in derivatives market?										Understand	CO 6	CMBB58.6
17	Discuss any five determinants of currency options in derivatives market?										Understand	CO 6	CMBB58.6
18	Express the various strategies which need to be adopted for trading currency options?										Understand	CO 6	CMBB58.6
19	Elucidate the concept of in the money, at the money and out of the money of option contract.										Understand	CO 5	CMBB58.5
20	Distinguish between forwards, options. Futures and options.										Remember	CO 5	CMBB58.5
Part – B (Long Answer Questions)													
1	Define options in derivatives market. Write options features, types of options in										Remember	CO 5	CMBB58.5



	derivatives market?			
2	Distinguish between call option and put option in derivatives market in detail?	Understand	CO 5	CMBB58.5
3	Narrate about options and futures in derivatives market? Bring out the differences between options and futures?	Understand	CO 6	CMBB58.6
4	List and Elucidate the role of market players in option trading.	Understand	CO 6	CMBB58.6
5	Discuss in detail the historical background and uses of option market.	Remember	CO 6	CMBB58.6
6	Elucidate about options pricing and the factors affecting the options pricing.	Remember	CO 5	CMBB58.5
7	Compare options and options market? Elucidate its significance in financial market.	Understand	CO 5	CMBB58.5
8	Express about put-call parity? Elucidate with suitable examples.	Remember	CO 6	CMBB58.6
9	Narrate a detailed note on basic objectives and principles of option trading.	Remember	CO 6	CMBB58.6
10	Express the important terms and trading mechanism of option market.	Remember	CO 6	CMBB58.6
11	Narrate about binomial option pricing model? What are the various assumptions of binomial option pricing model?	Remember	CO 5	CMBB58.5
12	Discuss in brief how BSOPM has further extended and Elucidate on discrete dividends and continuous dividend stream?	Understand	CO 5	CMBB58.5
13	Express about put option? Elucidate the principles of put option pricing in derivatives market in detail.	Remember	CO 6	CMBB58.6
14	Briefly Elucidate i) The maximum value of a call ii) The value of a call at expiration iii) The effect of time to expiration in options	Remember	CO 6	CMBB58.6
15	State the basic features and assumptions of Black-Scholes Option valuation.	Remember	CO 6	CMBB58.6
16	Why is it beneficial to exercise a European call option lately? Elucidate with illustration	Remember	CO 5	CMBB58.5
17	Discuss how risks of options can be managed. How is volatility estimated?	Understand	CO 5	CMBB58.5
18	Distinguish between spread, straddle and strangle option strategies and compare them with examples.	Apply	CO 6	CMBB58.6
19	Enumerate the principles of put option pricing? Discuss about the value of a put at expiration?	Remember	CO 6	CMBB58.6
20	Express the important positions that can be taken in a option contract by writer in different situations?	Remember	CO 6	CMBB58.6
<b>Part – C (Problem Solving and Critical Thinking)</b>				
1	The share of a Ltd company is priced at Rs.140 put options with a strike price of Rs.150 are priced at Rs.25 i) Calculate the intrinsic value of options? ii) What is the time value of options? iii) If the share price falls to Rs.80, what would be the gain/ loss for the holder and writer of the options?	Understand	CO 5	CMBB58.5
2	“Options contracts are relatively more safe derivative instruments”. Elucidate this statement.	Understand	CO 6	CMBB58.6
3	What is an option strategy? Elucidate the significance of choosing a right option strategy.	Understand	CO 5	CMBB58.5
4	Distinguish between exchange traded options and OTC traded options. Which options are popular and why?	Understand	CO 6	CMBB58.6
5	Define the term volatility. What are the methods of measuring volatility with respective options Pricing?	Understand	CO 5	CMBB58.5
6	A stock price is currently Rs.80. it is known that at the end of four months it will be either Rs.75 or Rs.85. the risk free interest rate is 5% P.A with continuous compounding. What is the value of four –month European put option with a strike price of Rs.80?	Understand	CO 6	CMBB58.6

7	Consider the following data		Apply	CO 5	CMBB58.5
	Stock price	Rs.50			
	Months to expiration	3 months			
	Risk free rate of interest	10% PA			
	S.D of stock	40%			
	Exercise price	Rs.55			
	Option type	European call			
	Calculate the value of call option as per Black-Scholes model				
8	Discuss the Black-Scholes option pricing model with suitable examples.		Understand	CO 6	CMBB58.6
9	Enumerate binomial option pricing model? What are the assumptions? Briefly discuss its important characteristics.		Understand	CO 5	CMBB58.5
10	The stock value of GMR industries in spot market is Rs.350 and 3 months option contract is of Rs.350. the price of an option is 12% share. At what price the option will be at the money, out of the money and in the money, if the option is both call as well as put option?		Apply	CO 6	CMBB58.6

#### UNIT-IV

#### COMMODITY MARKET DERIVATIVES

##### Part – A (Short Answer Questions)

1	Express about commodity market derivatives. Write the features of commodity markets?	Remember	CO 8	CMBB58.8
2	Discuss the product category or categories of commodities that are traded in commodity markets?	Understand	CO 8	CMBB58.8
3	Express about the commodity options in commodity markets? Write a note on call option hedge?	Remember	CO 7	CMBB58.7
4	Give various types of commodity swaps in commodity markets.	Understand	CO 7	CMBB58.7
5	Narrate on agro swap hedges in commodity markets?	Understand	CO 8	CMBB58.8
6	Express about the functions of futures commodity markets in commodity markets?	Remember	CO 7	CMBB58.7
7	State the classification of bullion products in commodity markets in India?	Understand	CO 7	CMBB58.7
8	Briefly Elucidate i) Spread position ii) Cross hedging	Understand	CO 8	CMBB58.8
9	List out the participants in the commodity markets?	Remember	CO 8	CMBB58.8
10	Express about the metal products that are traded in commodity markets?	Remember	CO 8	CMBB58.8
11	List out the reasons for investing in commodities.	Remember	CO 8	CMBB58.8
12	Enumerate the advantages of investing in commodities?	Understand	CO 8	CMBB58.8
13	Express about the Participants of commodities and derivative market?	Remember	CO 7	CMBB58.7
14	What are the types of orders and how can they be settled.	Understand	CO 7	CMBB58.7
15	Distinguish between Commodity futures and options.	Understand	CO 8	CMBB58.8

##### Part – B (Long Answer Questions)

1	Express about derivatives. Elucidate the different types of bullion products and metal products in detail.	Understand	CO 8	CMBB58.8
2	Enumerate the problems and prospects with the commodities derivatives market in India?	Understand	CO 7	CMBB58.7
3	Write about the trading of commodity options in exchanges? What do you mean by call option hedge, put option hedge and long combo hedge?	Understand	CO 7	CMBB58.7
4	What are the swaps in commodities derivatives market? Write about the types of commodity swaps in detail?	Understand	CO 8	CMBB58.8
5	Write a note on i) Energy swap hedges ii) Agro swap hedges	Remember	CO 7	CMBB58.7
6	Discuss how the commodity exchanges help farmers and trades developing country like India hedge their respective risks?	Remember	CO 7	CMBB58.7
7	Express in detail about Multi Commodity Exchange (MCX) of India limited?	Understand	CO 7	CMBB58.7
8	Elucidate about the National Commodity and Derivatives Exchange (NCDEX) Limited.	Remember	CO 8	CMBB58.8
9	Narrate the clearing, settlement and delivery mechanism in commodity	Apply	CO 8	CMBB58.8



	exchanges in India?			
10	Narrate the steps generally taken by the commodities exchanges to protect the interests of the genuine traders against the misuse by unscrupulous speculators?	Remember	CO 8	CMBB58.8
11	Express about commodity market? Elucidate the role of commodity market in derivative markets.	Remember	CO 8	CMBB58.8
12	Elucidate the role of national commodity derivative exchange in derivative markets.	Understand	CO 7	CMBB58.7
13	Discuss functions of commodity derivative market and also Elucidate the trading mechanism.	Remember	CO 7	CMBB58.7
14	Enumerate the structure of the National Commodity and Derivatives Exchange Limited (NCDEX)?	Remember	CO 8	CMBB58.8
15	Discuss the benefits of commodity futures markets as an efficient price risk management?	Remember	CO 7	CMBB58.7

### Part – C (Problem Solving and Critical Thinking)

1	<p>In later part of Aug 2016, a black pepper wholesale merchant from Kerala is contemplating whether to buy now or buy in the month of Oct2016.</p> <ol style="list-style-type: none"> <li>The spot price is Rs.11380 for 100 Kg</li> <li>The storage cost of black pepper is Rs.15 per 100 Kg per month</li> <li>The black pepper Nov 2016 futures is quoting Rs.11700 per 100 kg</li> <li>The historical basis between Oct 2016 and Nov 2016 futures averages at minus (-)210. However keeping in view the relatively good production news, the wholesaler is anticipating the basis to strengthen by Rs.30 by Oct 2016</li> <li>Cost of funds is 7% per annum continuously compounded?</li> </ol> <p>Answer the following questions, using the above data</p> <ol style="list-style-type: none"> <li>What would be September 2016 spot price?</li> <li>Whether the wholesaler should buy spot new or enter into a futures contract?</li> </ol>	Apply	CO 7	CMBB58.7
2	How is pricing in commodities market different from pricing of financial futures. Define mechanisms involved.	Remember	CO 8	CMBB58.8
3	Under what circumstances are short hedge and a long hedge appropriate? use examples	Apply	CO 7	CMBB58.7
4	Express about the role of commodity exchanges for investors and commodity buyers?	Understand	CO 8	CMBB58.8
5	Elucidate about the 3 national level commodity exchanges to trade in all permitted commodities.	Remember	CO 7	CMBB58.7

### UNIT-V

### SWAPS

### Part - A (Short Answer Questions)

1	Discuss the features of swaps contract in derivatives market in India?	Remember	CO 10	CMBB58.10
2	Express about currency swaps contract in derivatives market?	Understand	CO 10	CMBB58.10
3	How do you value the currency swaps contract in derivatives market based on the present values of the conventional bonds?	Remember	CO 9	CMBB58.9
4	Express commodity swaps in derivatives contract. Discuss the various types of commodity swaps?	Understand	CO 10	CMBB58.10
5	Express about credit risk. Write about the credit risk in swaps contract in the derivatives market?	Remember	CO 10	CMBB58.10
6	List out any three main swaps contract that enables an organization to manage credit risk more efficiently?	Understand	CO 9	CMBB58.9
7	<p>Write a note on the following credit swaps</p> <ol style="list-style-type: none"> <li>Total return swaps</li> <li>Credit default swaps</li> </ol>	Understand	CO 10	CMBB58.10
8	Express about the plain vanilla swap contract in derivatives market? Write its importance?	Remember	CO 9	CMBB58.9
9	Narrate Credit Linked Notes (CLN) in derivatives. Write its types and structure?	Understand	CO 9	CMBB58.9
10	Express credit swaps in derivatives. Elucidate credit swaps with an example.	Understand	CO 10	CMBB58.10
11	Express about currency swap and how does it reduce exposure to risk?	Remember	CO 10	CMBB58.10
12	How do you evaluate the price quote for a swap?	Remember	CO 10	CMBB58.10

13	Briefly discuss the bases and types of commodity Swap.	Remember	CO 9	CMBB58.9
14	Distinguish among options, futures and swaps.	Understand	CO 10	CMBB58.10
15	Narrate about Equity index swaps.	Remember	CO 10	CMBB58.10
16	Define the term 'swap contract'. Who are the parties involved in a swap?	Understand	CO 9	CMBB58.9
17	Briefly elaborate on the evolution of swap dealings.	Understand	CO 10	CMBB58.10
18	List out the benefits and disadvantages of Swaps?	Remember	CO 9	CMBB58.9
19	Distinguish between coupon swap and basis swap.	Understand	CO 9	CMBB58.9
20	Express the motives behind a swap transaction?	Understand	CO 10	CMBB58.10

**Part - B (Long Answer Questions)**

1	Enumerate swaps in derivatives market? Elucidate the swaps concept and nature in detail.	Understand	CO 9	CMBB58.9
2	Discuss the major types of swaps contract which are traded in derivative market in India?	Understand	CO 9	CMBB58.9
3	Elucidate the concept of interest rate swaps. Discuss the various features of interest rate swaps with suitable examples.	Remember	CO 9	CMBB58.9
4	"Plain vanilla swap is simplest form of interest rate swap contract available in interest rate swap market" discuss with the help of an example Elucidate its structure and mechanism	Analyze	CO 10	CMBB58.10
5	Narrate about currency swaps in derivatives market? Discuss the three steps flow of currency swaps with an example?	Remember	CO 10	CMBB58.10
6	Express about commodity swaps in derivatives? Write about the different types of commodity swaps in detail?	Remember	CO 10	CMBB58.10
7	Write a note on i) Credit risk in swaps contract ii) Credit swaps in derivatives	Understand	CO 10	CMBB58.10
8	When do we use swaps as a hedging tool? Elucidate the silent features of currency and interest rate swaps with an example.	Apply	CO 10	CMBB58.10
9	Discuss how interest rate swaps are priced at the time of origination and after origination in swaps contract?	Remember	CO 10	CMBB58.11
10	"Commodity swaps are priced in the same way as interest rate and currency swaps". Elucidate with the help of an example.	Analyze	CO 10	CMBB58.10
11	Enumerate currency swap and how it is different from an interest rate swap?	Remember	CO 9	CMBB58.9
12	Express about financial Swap? Discuss its various features.	Understand	CO 9	CMBB58.9
13	Narrate various motivations underlying swap contracts? Elucidate the trading mechanism.	Understand	CO 9	CMBB58.9
14	Why expected loss from a default on swap is less than the expected loss from the default on a loan with the same principal? Discuss.	Understand	CO 10	CMBB58.10
15	Define the term 'swap contract'. Who are the parties involved in a swap?	Understand	CO 10	CMBB58.10
16	Discuss how borrowing costs can be decreased in foreign country by using currency swaps?	Remember	CO 10	CMBB58.11
17	How can you use currency swaps a tool to hedge against risk of a decline in revenue in derivatives?	Understand	CO 10	CMBB58.10
18	Elucidate the characteristics and advantages of equity indexed swaps in derivatives market.	Remember	CO 10	CMBB58.11
19	Discuss the role of interest rate swaps contract to lower borrowing costs in managing interest rate risk?	Remember	CO 10	CMBB58.10
20	Express about interest rate swap in derivatives. Write the different types of interest rate swaps in derivatives?	Remember	CO 10	CMBB58.10

**Part – C (Problem Solving and Critical Thinking)**

1	On October01,2016 , the spot term structure is as follows				Analyze	CO 9	CMBB58.9
	12 months	24 months	36 months	48 months			
	2.52	5.08	7.73	10.4			
	Determine the fixed rate on a 4 year swap for the pay fixed part?						
2	Companies A and B have been offered the following rates per annum on a Rs.20million 5 year loan				Analyze	CO 10	CMBB58.10
		Fixed rate	Floating rate				
	Company A	5%	LIBOR+0.1%				
	Company B	6.4%	LIBOR+0.6%				

	Company A requires a floating rate loan, company B requires a fixed rate loan. Design a swap that will net a bank, acting as intermediary, 0.1% per annum and that will appear equally attractive to both companies.			
3	“Swap is a private agreement between two parties in which both parties are ‘obligated’ to exchange some specified cash flows at periodic intervals”. Elucidate.	Analyze	CO 9	CMBB58.11
4	How would you value a swap that is the exchange of a floating rate in one currency for a fixed rate in another currency?	Apply	CO 10	CMBB58.10
5	Describe a fixed-floating interest rate swap in terms of forward (futures) contracts. Elucidate the advantages of a swap agreement compared to forward contracts.	Analyze	CO 9	CMBB58.9
6	Express the differences, in terms of required cash flows, between an interest rate swap and a currency swap? Discuss.	Apply	CO 10	CMBB58.10
7	Describe a cross-currency interest rate swap in terms of interest rate swaps and currency swaps.	Analyze	CO 9	CMBB58.11
8	Narrate about counterparty risk in a swap agreement? What is market risk in a swap agreement? What is the right-of-offset in a swap agreement?	Apply	CO 10	CMBB58.10
9	Elucidate how firms can take advantage of comparative and absolute advantages in different credit markets using currency swap agreements?	Analyze	CO 9	CMBB58.9
10	“A floating-rate payer in a fixed-floating interest rate swap can be viewed as short the bond market.” Elucidate the statement in detail.	Apply	CO 10	CMBB58.11

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