Roll No…………

G.L. Bajaj Institute of Management & Research

Plot No. 2, Knowledge Park-III, Greater Noida (U.P.)-201306

POST GRADUATE DIPLOMA IN MANAGEMENT (2017-19)
END TERM EXAMINATION (TERM-V)

Subject Name: Financial Risk Management Time: 02.00 hours
Subject Code: PGF-04 Max Marks: 45

Note:
1. Writing anything except Roll Number on question paper will be deemed as an act of indulging in unfair means and action shall be taken as per rules.
2. All questions are compulsory in Section A, B & and C. Section A carries 2 Case Studies of 10 marks each, Section B carries 2 questions of 7.5 marks each and Section C carries 5 questions 2 marks each.

SECTION A 20 Marks

Q. 1: Case Study:

Companies A and B have been offered the following rates per annum on a Rs 10 million loan for 5 Years:

	Fixed Rate	Floating Rate
Company A	14	MIBOR+0.5
Company B	16.2	MIBOR+1.5

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, 0.2% per annum and that will appear equally attractive to both companies.

Q. 2: Case Study:

Suppose that March call option to buy a share for Rs 50 costs Rs 2.5 and is held until March. Under what circumstances will the holder of the option make a profit? Under what circumstances will the option be exercised? Draw a diagram illustrate how the profit from a long position in the option depends on the stock price at the maturity of the option.

SECTION B 15 Marks

Q. 3: How a Future contract is different from Options? Explain with suitable examples.

Q.4: How market risk is different from Credit risk? Explain with the help of a future contact.

SECTION C **10 Marks**

Q.5 (A): The spot price of an investment asset that provides no income is Rs 130 and the risk-free rate for all maturities (with continuous compounding) is 8%. What is the two year forward price?

Q.5 (B): On January 01, the price of a commodity is $600 and the October futures price is $630. On September 01 the price is $560 and the October futures price is $562. A producer entered into a October futures contracts on January 01 to hedge the sale of the commodity on September 01. It closed out its position on September 01. What is the effective price received by the producer?

Q.5 (C) How Credit Default Swap works?

Q.5 (D) A company enters into a long futures contract to buy 2,000 units of a commodity for $20 per unit. The initial margin is $12,000 and the maintenance margin is $8,000. What futures price will allow $3,000 to be withdrawn from the margin account?

Q.5 (E) Explain carefully the difference between Buying a Call option and Writing a Put option.