

	iii) Under what circumstances the option holder would exercise his call? iv) At what price of the asset the call option holder would break even? v) If the price of the asset becomes Rs 2,150, should the option holder exercise the call option? vi) What is the profit/loss of the holder and writher if the price of the asset is Rs 2,000, Rs 2,250 and Rs 2,500 on the date of expiry of the option?		
Q4.	i) What is the minimum and maximum bound on the value of the call option? Explain. ii) What is put call parity? Provide the relationship for call and put prices for European options.	10	CO2
Q5.	What are the functions of swap/intermediary banks	10	CO1
Q6.	Explain Transaction, Translation & Economic exposure.	10	CO3

SECTION-C

S.No.	Attempt any one question											
Q1.	<p>Two Indian firms X and Y are contemplating to raise finance of Rs 100 crore each. They have been offered following loans by a bank</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 35%;">Fixed rate Market</th> <th style="width: 35%;">Floating rate Market</th> </tr> </thead> <tbody> <tr> <td>Firm X</td> <td>12%</td> <td>MIBOR +70 bps</td> </tr> <tr> <td>Firm Y</td> <td>11%</td> <td>MIBOR+30 bps</td> </tr> </tbody> </table> <p>Another bank acting as swap intermediary is willing to work out a swap arrangement for a fee a 5 bps from each firm. . Firm X believes that interest rate would fall and hence, wants to raise funds in the floating rate basis. Y feels otherwise and likes to raise funds on fixed interest rate basis. What swap can be arranged between two parties? What would be the saving in financing cost of each firm?</p>		Fixed rate Market	Floating rate Market	Firm X	12%	MIBOR +70 bps	Firm Y	11%	MIBOR+30 bps	20	CO4
	Fixed rate Market	Floating rate Market										
Firm X	12%	MIBOR +70 bps										
Firm Y	11%	MIBOR+30 bps										
Q2.	Given the following information about an asset:	20	CO4									

Current Market Price: Rs 50, Annual Volatility: 30%, Risk Free Interest Rate for 3months: 10%

Find out the value of 3-month call option with strike prices of (a) Rs 40; (b) Rs 50 and (c) Rs 60. What are the intrinsic and time value of the calls?