Name: **Enrolment No:**	UPES UNIVERSITY WITH A PURPOSE

UNIVERSITY OF PETROLEUM & ENERGY STUDIES

End Semester Examination (Online) – May, 2021

Program: B Com (Hons) **Semester: VI**
Subject/Course: Introduction to Derivatives **Max. Marks: 100**
Course Code: FINC3017 **Duration: 3 Hours**

Section A

1. **Each question carries 5 marks.**
2. **Instructions- Select the correct answers.**

S No	Question	CO
Q1	Which of the following are mostly closed before maturity? A) Future contracts B) Forward contract C) Equity Shares of Axis Bank D) Options	**CO1**
Q2	When derivatives transactions with a counterparty are cleared bilaterally, they are….. A) Carried forward B) Netted C) Outstanding **D)** Not settled.	**CO1**
Q3	Speculation and gambling are same. A) True B) False	**CO1**
Q4	Hedging increases risk in financial markets. A) False B) True	**CO1**
Q5	Daily margin cash flows are referred to as variation margin A) Initial margin B) Maintenance margin C) Variation margin D) Option B & C	**CO2**
Q6	Stock indices are settled on cash. A. False B. True	**CO2**

<table>
<tr><td colspan="3">Section B
1. Each question carries 10 marks.
2. Instructions: Write short answers.</td></tr>
<tr><td>Q7</td><td>Write down the process of accounting of options.</td><td>CO2</td></tr>
<tr><td>Q8</td><td>Explain the uses of interest rate swaps.</td><td>CO2</td></tr>
<tr><td>Q9</td><td>Explain the following statement,
“Hedging provides certain benefits to corporates and hedging is not free from limitations”.</td><td>CO3</td></tr>
<tr><td>Q10</td><td>Derivatives securities are subject to taxation. Elaborate taxation of derivative securities.</td><td>CO3</td></tr>
<tr><td>Q11</td><td>Provide the formula to compute optimal hedge ratio and also give one hypothetical example.</td><td>CO4</td></tr>
<tr><td colspan="3">Section C
1. Each question carries 20 marks.
2. Show all the steps in calculating the required values until three decimal places.</td></tr>
<tr><td>Q12</td><td>Assume you are working as in intern with Doon Ltd in risk management unit. You manager has asked you to prepare a presentation on different types of derivative securities and their benefits. Draft a response that will help you to prepare the required presentation.
OR
Assume that AAA firm wants to borrow fixed and BBB firm wants to borrow floating (rates are given below). Draft a swap transaction that will help both the companies to trade.
<table><tr><th></th><th>Fixed</th><th>Floating</th></tr><tr><td>AAACorp</td><td>4.00%</td><td>6-month LIBOR − 0.1%</td></tr><tr><td>BBBCorp</td><td>5.20%</td><td>6-month LIBOR + 0.6%</td></tr></table></td><td>CO4</td></tr>
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