TYBAF

Time : 2 ½ Hours Marks : 75

N.B: 1. All question are compulsory.
2. Make suitable assumptions wherever necessary and state the assumptions made.
3. Answer to the same question must be written together.
4. Numbers to the right indicate marks.

Q1) (A) Multiple Choices Question: (Any Eight) (08)

1. In a put option, the holder has the right to:
A) Sell an asset at a predetermined price. B) Buy an asset at a predetermined price.
C) Exchange one asset for another. D) None of the above.

2. Which term describes the risk that a counterparty will not fulfil their obligations in a derivative contract?
A) Market risk B) Credit risk C) Operational risk D) Liquidity risk

3. What happens when an option expires?
A) It can be renewed automatically. B) It becomes worthless if not exercised.
C) It converts into a futures contract. D) The underlying asset is delivered.

4. Which of the following strategies would likely use a "put option"?
A) Speculating on a price increase. B) Long-term investment in stocks.
C) Hedging against price drops. D) Borrowing funds.

5. A futures contract requires a margin deposit. What is the purpose of this margin?
A) To ensure liquidity. B) To cover transaction fees.
C) To pay for the underlying asset. D) To act as collateral for the position.

6. Which of the following is a disadvantage of using forwards?
A) They are traded on exchanges.
B) They are standardized contracts.
C) They expose the parties to counterparty risk.
D) They require margins.

7. In a bear market, which type of option would an investor likely consider buying?
A) Call option B) Put option
C) Futures contract D) Forward contract

8. Which of the following is a key feature of European-style options?
A) They can be exercised at any time.
B) They can only be exercised at expiration.
C) They are traded exclusively in the U.S.
D) They have no expiration date.

9. If a trader sells a call option, they are considered to be in a:
A) Short position B) Long position
C) Neutral position D) Risk-free position

10. The bid price for USD/INR is 75.50 and the ask price is 76.00. If you buy USD 1,000 using INR, you will spend ______ INR.
A) 76,000 B) 75,500 C) 75,000 D) 75,750

Q1. B. Answer whether the below statements are true or false (Any seven) **(07)**

1. In Forex, the quote currency is the second currency in a currency pair.
2. Futures contracts can only be traded on centralized exchanges.
3. Spot transactions typically settle within two business days.
4. All currencies in the Forex market are quoted against the US dollar.
5. The forward exchange rate is typically used for immediate transactions.
6. The bid price is the price at which a trader can sell a currency.
7. The term "hedging" refers to taking a position in a financial market to offset potential losses.
8. The Forex market is only accessible to large financial institutions.
9. The term "over-the-counter" (OTC) indicates that trading occurs through a centralized exchange.
10. The concept of "pips" is used to measure price movements in the Forex market.

Q2) (A) A one-month Nifty futures contract trades on the NSE. The cost of financing is 15% p.a. and the dividend yield on Nifty is 3% p.a. The spot value of Nifty is 24,350. What is the fair value of the futures contract using simple interest? **(08)**

Q2) (B) A 1-month call option with a strike price of Rs. 844 for shares of Sam Ltd. is available for a premium of Rs. 20. Find out the net payoff of the option holder given that the share price on the exercise day is (a) Rs. 834, (b) Rs. 844, (c) Rs. 856, (d) Rs. 866, or (e) Rs. 880 **(07)**

Q2) (C) Hedgers v/s Arbitrageurs in derivative markets. **(08)**
Q2) (D) What are the key features of a Futures Contract? **(07)**

Q3) (A) What are various type of margins in a futures contract? **(07)**
Q3) (B) Calculate time value and intrinsic value of the following stock options of P Ltd. **(08)**

Option	Strike price	Spot price	Premium charged
Put	1,408	1,320	108
Put	1,232	1,320	20
Call	1,408	1,320	28
Call	1,232	1,320	108

OR

Q.3. C)

Base currency	Variable currency	Bid rate	Ask rate
USD	INR	83.567	82.745 83.74
USD	CAD	1.394	1.412
GBP	INR	109.91	109.95
GBP	USD	1.305	1.456
USD	EUR	0.937	0.956

From the above information rates, Calculate Mid-rate, Spread, % Spread. **(07)**

Q.3. D)

Base currency	Variable currency	Bid rate	Ask rate
USD	INR	84.975	85.001
USD	CAD	1.567	1.573
GBP	INR	108.235	108.752
GBP	USD	1.297	1.388
USD	EUR	0.912	0.955

From the above information rates, Calculate inverse quotes. (08)

Q.4. A) Calculate the rate of following currencies against Indian Rupee. (07)

		BID	ASK
1 USD	=	INR 82.56	83.12
1 GBP	=	USD 1.305	1.450
1 EURO	=	USD 1.085	1.093
1 USD	=	JPY 152.285	153.891

Q.4. B) Form the following USD INR quotations, Calculate the outright forward quotes. Explain whether it is a premium or discount. (08)

Spot	1-month fwd	2 months fwd	6 months fwd
80.278 / 81.540	150 / 250	250 / 400	800 / 1050

OR

Q.4. C) Explain arbitrage in foreign exchange. (07)

Q.4. D) Explain the difference between risk and exposure. (08)

Q.5. A)

1) Explain the advantages and disadvantages of purchasing power parity. (07)

2) Explain different types of forecasting exchange rate. (08)

OR

Q.5. B] Short notes **(Any 3 of 5)** (15)

1) Hedging
2) Spot and forward rates
3) LORO accounts
4) NOSTRO account
5) OTC market

X151YDB6E04X151YDB6E04X151YDB6E04X151YDB6E04