Name: **Enrolment No:**	

UPES

End Semester Examination, December 2024

Course: Introduction to Derivatives **Semester: III**

Program: Int. B.com-MBA **Time : 03 hrs.**

Course Code: FINC2054 **Max. Marks: 100**

Instructions:

SECTION A

10Qx2M=20Marks

S. No.		Marks	CO
Q 1 (a)	**What are derivatives primarily used for in financial markets?** A) To raise capital B) To manage risk C) To buy assets D) To pay dividends	**2**	**CO1**
(b)	**Which of the following is NOT a type of derivative contract?** A) Options B) Bonds C) Futures D) Swaps	**2**	**CO1**
c)	**Who are the primary participants in a derivatives market?** A) Speculators, hedgers, and arbitrageurs B) Investors, regulators, and auditors C) Accountants, managers, and shareholders D) Brokers, dealers, and depositors	**2**	**CO1**
(d)	**The primary purpose of a stock index is to:** A) Track the performance of a specific stock B) Reflect the economic health of a sector or market C) Set interest rates for loans D) Determine bond prices	**2**	**CO1**
(e)	**In trading systems for futures and options, the Trader Workstation is:** A) The platform used for placing orders B) A desk where traders meet C) The physical exchange floor D) The set of policies for trades	**2**	**CO1**

(f)	**Which regulatory body is responsible for overseeing derivatives trading in India?** A) RBI B) SEBI C) IRDA D) Ministry of Finance	**2**	**CO1**
(g)	**Accounting for futures requires recognizing:** A) The fair value of the contract at settlement B) Dividends received C) Only the initial margin D) The net present value of the stock	**2**	**CO1**
(h)	**The historical development of derivatives markets began with:** A) Commodities and agricultural products B) Stock index options C) Corporate bonds D) Real estate contracts	**2**	**CO1**
(i)	**A futures payoff for the buyer is positive when:** A) The futures price decreases B) The futures price exceeds the contract price at expiration C) There is no change in the futures price D) The underlying asset value decreases	**2**	**CO1**
(j)	**The term "mark-to-market" in futures trading means:** A) Setting the initial price of a contract B) Adjusting the value of the contract daily based on market price changes C) Calculating future contract value D) Determining the expiry date of a contract	**2**	**CO1**
SECTION B **4Qx5M= 20 Marks**			
Q2.	Briefly describe the main participants in a derivatives market and their roles?	**5**	**CO2**
Q3.	Explain how the pricing of futures contracts is determined.	**5**	**CO2**
Q4.	Describe the role of the Futures and Options Trading System (FOTS) and the Trader Workstation in derivatives markets.	**5**	**CO2**
Q5.	Imagine an agricultural producer is trying to forecast the value of a crop for the upcoming season. Describe how forward contracts might be used to lock in prices and assess how this decision could impact the producer's profitability.	**5**	**CO2**
SECTION-C **3Qx10M=30 Marks**			

Q6.	Describe the economic significance of stock index movements in a country's economy. Also identify and briefly explain two issues that are commonly encountered in the construction of a stock index.	**10**	**CO3**
Q7.	Explain the role of SEBI in regulating derivatives trading in India Also summarize the purpose of the Securities Contracts (Regulation) Act, 1956, in India.	**10**	**CO3**
Q8.	Differentiate between futures and forward contracts in terms of their structure, trading mechanisms, and applications. Provide examples of situations in which one might be preferred over the other.	**10**	**CO3**
SECTION-D **2Qx15M= 30 Marks**			
Q9.	A portfolio manager wants to understand the potential impact of interest rate changes on the pricing of stock futures. Explain the cost-of-carry model and apply it to calculate a stock futures price with suitable examples. OR Analyze the concept of "mark-to-market" in futures contracts, describing how it affects both buyers and sellers. Apply this concept to explain the role of daily settlement in maintaining market integrity and managing risk with suitable examples.	**15**	**CO4**
Q10.	An investor purchases a call option on a stock, which appreciates in value before expiration. Outline the accounting treatment for the premium paid and subsequent valuation changes in this option. Analyze the financial statement impact if the option is exercised versus if it expires worthless.	**15**	**CO4**