QP Code: D154233	Total Pages: 1	Name:
		Register No.

FIFTH SEMESTER (CUFYUGP) DEGREE EXAMINATION, NOVEMBER 2026

MANAGEMENT STUDIES

BBA5EJ302(1) FINANCIAL DERIVATIVES

2024 Admission onwards

Maximum Time :2 Hours | **Maximum Marks :70**

Section A

All Questions can be answered. Each Question carries 3 marks (Ceiling: 24 Marks)

1	What is an underlying asset? Give two examples.
2	State any three advantages of exchange-traded derivatives.
3	What is a futures contract? Mention any two of its important features.
4	What is meant by initial margin and maintenance margin?
5	What is an option premium? Mention its major components.
6	Distinguish between American and European options.
7	What is a currency swap? State any two of its uses.
8	What is hedge effectiveness? Mention any two factors affecting it.
9	Distinguish between long hedge and short hedge.
10	What is basis risk? State any two causes of basis risk.

Section B

All Questions can be answered. Each Question carries 6 marks (Ceiling: 36 Marks)

11	Explain the basic types of financial derivatives: forwards, futures, options and swaps, with suitable examples.
12	Explain the major differences between forward contracts and futures contracts.
13	The current price of an asset is ₹1,000. The annual risk-free interest rate is 8%. Calculate the three-month forward price, assuming simple interest and no income from the asset.
14	A trader buys 500 units of a futures contract at ₹600 per unit. At maturity, the futures price is ₹640 per unit. Calculate the trader's profit or loss.
15	Explain the Binomial Option Pricing Model and describe the steps involved in determining the value of an option.
16	Explain the major factors that influence the value of an option.
17	Explain interest rate swaps and currency swaps. Discuss their major differences.
18	Explain cross hedging and discuss the factors that determine the effectiveness of a cross hedge.

Section C

Answer any ONE. Each Question carries 10 marks (1x10=10 Marks)

19	Explain the role of financial derivatives in modern financial markets. Discuss their importance in risk management, price discovery, speculation and market efficiency, with suitable examples.
20	A manufacturing company expects to purchase a commodity after three months and anticipates a substantial increase in its price. Explain how the company can use futures contracts to hedge the risk of price increase. Illustrate the working of a long hedge with a suitable numerical example.