

Subject Code: MB1348/R13

M B A - IV Semester Regular Examinations, June - 2015

FINANCIAL RISK MANAGEMENT

Time: 3 hours

Max Marks: 60

Answer any FIVE of the following

All questions carry equal marks. Q.No.8 is compulsory

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1. a) Explain the Nature and scope of risk?  
b) Write a note on various types of risk management methods?
2. a) Differentiate between ( VaR) and (CaR)?  
b) Write a note on various types Risk retention and Risk transfer methods?
3. a) Explain the concept and importance of Derivatives market in India  
b) Define forward contract and explain Valuation of forward contracts methods?
4. a) Explain the significance of SWAPS to hedge against risk?  
b) Compare and contrast Interest rate Swaps and Currency Swaps?
5. a) Describe the different types of Options?  
b) Explain the significance of Binominal option pricing model?
6. a) Describe the Risk in Financial Institutions?  
b) Distinguish between Risk management vs. Risk avoidance?
7. Current market price of

	<u>A</u>	<u>B</u>	<u>C</u>
Option	16.12	10.62	13.58
Stock	Rs. 80	80	80
Exercise price	Rs. 70	80	75
Time to expiration	3 months	3 months	3 months
Risk – free return	12% p.a.	12% p.a.	12% p.a.
Expected dividend	0	0	0
Stock return	60%	60%	60%

Calculate the option Value for ABC

8. **Case Study:**

Hyundai motors exports cars to Germany, and every three month, it would receive EUR 500,000 from car shipments. On March 1, the exchange rate between the Indian rupee and the euro is EUR 1= INR 70.7242. The interest rate in Germany is 6% per annum, while the interest rate in India is 9% per annum. Hyundai wants to hedge its euro receipt through forward contracts for the next 6 months.

**Questions:**

- a) What type of hedging activity would be suitable for Hyundai?
- b) What would be the amount in Indian rupees that Hyundai will receive after 90 days and after 180 days if it enters into a 90 – day and 180 – day forward contract, respectively?

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