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Sl.No.

Total No. of Pages : 3

II - Semester M.Com. Examination, June/July - 2017
(Scheme: CBCS)
COMMERCE
HC: Capital Markèt Instruments

Time : 3 Hours

Max. Marks : 70

Instruction: Statistical/Financial Tables and Calculators permitted inside the examination hall.

PART - A

Answer any five of the following. Each question carries five marks. [5 × 5 = 25]

1. Define the term 'securitisation'. What are the major types of securities traded in capital markets?

2. What are ADRs and GDRs?

3. Explain the main features of ETFs.

4. What are the functions of derivatives market?

5. Distinguish between a futures contract and an options contract.

6. What is interest rate swap? Explain its basic structure.

7. A company is planning to sell Zero Coupon Bonds for financing its projects. It is evaluating two series ZCB A and ZCB B . The maturity value of ZCB A is Rs. 5000 and that of ZCB B is Rs. 10,000. ZCB A matures in 4 years from now and can be sold at a discount of 40 pc. ZCB B matures in 5 years and can be sold at a discount of 36 Pc. Which of the two you would suggest?

8. A commodity is currently selling in the spot market at a price of Rs. 2750/q. What is its theoretical fair futures price, given that risk free rate is 8% (continuously compounded) and cost of carry Rs.310/q and T=4 months.

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PART-B

Answer any 3 questions. Each question carries 10 marks. [3 × 10 = 30]

9. Why does corporates issue debt securities? Discuss the recent trends.

10. What are 'futures'? Explain their merits and limitations.

11. Illustrate the concept of 'intrinsic' value and 'time value' of options contracts.

12. EPS Ltd. is a newly established company. It is currently paying a dividend of Rs. 14 per share. The return on investment of the company will be at 20 Pc per annum in the first four years. Thereafter, it is expected to be constant at 14 percent per annum. The company's dividend payout policy is constant at 50 Pc. The market requires a 10 percent return on the company's stock. What is the present value of stock?

13. A trader in stock market has written a call option on YES stock on NSE at a premium of Rs. 45 (Strike price=K=Rs.1100). The call options expire in 3 months from now. What is the BEP for the trader? If the theoretical price range of YES stock is Rs. 0, 200, 400............. to Rs.3000, what is the payoff profile of option for the trader? Draw a schematic diagram showing the results.

PART-C

14. **Case Study : (Compulsory)** [1 × 15 =15]

Ms. Banu is working as CFO of PSS Cotton Mills Ltd. She observed that the company is facing interest rate and currency risks due to its high financial leverage and exports business respectively. The company is also facing risk of fluctuating price of raw cotton which is the main raw material used by it. But the Company is hardly using derivatives for controlling risks. However, Ms. Banu was able to convince the management to use the derivatives market for hedging the risks, including raw cotton price exposure.

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The company's practice is to procure raw cotton on the basis of quarterly budget. At the beginning of first quarter on 1st April the Mill planned to buy 120 tons of cotton in June. June cotton futures are traded today (i.e.1st April) at NCDEX at a price of Rs. 87,000 per ton. The size of each futures contract on NCDEX is 10 tons. The margin money required to be deposited is 8% of total value of futures contracts.

Questions:

a) What derivatives Ms.Banu can use to minimize the exchange rate risk?

b) What derivatives Ms.Banu can use to minimize the interest rate risk?

c) What derivatives Ms.Banu can use to minimize the price risk?

d) What position Ms.Banu will be taking in the futures market? How many contracts she needs to take? How much margin money she has to deposit with the clearing house? Suppose the cotton price rose to Rs.98,600/ton at the time of expiry of June futures contract. Is the Mill benefitted by taking futures contract? Justify your answer.

e) Illustrate the M2M procedure using the above futures contract.

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