Roll No…………

Plot No. 2, Knowledge Park-III, Greater Noida (U.P.)-201306

POST GRADUATE DIPLOMA IN MANAGEMENT (2017-19)
MID TERM EXAMINATION (TERM-V)

Subject Name: **Financial Risk Management**	Time: **01.30 hour**
Subject Code : **PGF-04**	Max Marks**: 20**

Note:

1. Writing anything except Roll Number on question paper will be deemed as an act of indulging in unfair means and action shall be taken as per rules.
2. All questions are compulsory in Section A, B & C. Section A carries 1 Case Study, 8 marks, Section B carries 3 questions of 2 marks each and Section C carries 2 questions 3 marks each.

SECTION A 8 Marks

Q. 1: Case Study:

i) A company enters into a short futures contract to sell 50,000 pounds of cotton for 70 cents per pound. The initial margin is $4,000 and the maintenance margin is $3,000. What is the futures price above which there will be a margin call?

ii) A company enters into a long futures contract to buy 1,000 units of a commodity for $20 per unit. The initial margin is $6,000 and the maintenance margin is $4,000. What futures price will allow $2,000 to be withdrawn from the margin account?

SECTION B 6 Marks

Q. 2: On March 1, the spot price of a commodity is $20 and the July futures price is $19. On June 1 the spot price is $24 and the July futures price is $23.50. A company entered into futures contracts on March 1 to hedge the purchase of the commodity on June 1. It closed out its position on June 1. What is the effective price paid by the company for the commodity?

Q.3: On March 1, the price of a commodity is $300 and the December futures price is $315. On November 1 the price is $280 and the December futures price is $281. A producer entered into a December futures contracts on March 1 to hedge the sale of the commodity on November 1. It closed out its position on November 1. What is the effective price received by the producer?

Q.4 Explain carefully the difference between hedging speculation, and arbitrage.

SECTION C 6 Marks

Q.5: The spot price of an investment asset that provides no income is $30 and the risk-free rate for all maturities (with continuous compounding) is 10%. What is the three-year forward price?

Q.6: Under what circumstances are (a) a short hedge and (b) a long hedge appropriate?