

**Code No: MB1348/R13**

**MBA IV Semester Regular/ Supplementary Examinations, April-2017**

**FINANCIAL RISK MANAGEMENT**

**Time: 3 Hours**

**Max.Marks: 60**

---

*Answer Any FIVE Questions  
All Questions Carry Equal Marks  
Question No. 8 is Compulsory*

---

1. a What is risk? What is the need for risk management in an Organisation? 6  
b What is the difference between technology and operational risk? 6
2. a What is value at risk (VaR)? Explain the computation of back testing? 6  
b Why does a bank become economically insolvent, if its net worth turns negative? 6
3. a Explain the Merits and demerits of financial derivatives? 6  
b Explain the risk containment measures for the financial derivatives trading in India? 6
4. a Explain various uses of Forward contract with suitable examples? 6  
b Explain what happens when an investor shorts a certain shares? 6
5. a What do you understand by hedging with suitable examples? 8  
b Differentiate between hedging and Speculation. 4
6. a What is financial Swap? Discuss the features of a swap contract with example? 6  
b Write a note on valuation of currency Swap. Explain with examples. 6
7. a What do you understand by Options and Options Market? Explain Its significance in financial market? 8  
b Distinguish between Exchange-trade Options and OTC-traded Options. 4
8. **Case study (Compulsory)** 12  
French Company imports in January an equipment from the USA for \$6 millions. The Payment in US dollars is due in June. The importer fears an appreciation of US dollars. The spot rate is \$0.2/FFr. The FFr future contract for June is quoted at \$ 0.19/FFr. What should the French importer do? Assume further spot rate on settlement date is \$ 0.185/FFr and the future contract is likely to be quoted at \$ 0.178/FFr. What is the hedging efficiency?  
\*\*\*\*\*

