Roots Institute of Financial Markets

RIFM

Practice Book

Derivatives Market (Dealers) Module

Forward

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Ph.99961-55000, 0180-2663049 email: info@rifm.in
Web: www.rifm.in

Our Team

Deep Shikha Malhotra CFP^{CM}

- M.Com., B.Ed.
- AMFI Certified for Mutual Funds
- IRDA Certified for Life Insurance
- IRDA Certified for General Insurance
- PG Diploma in Human Resource Management

CA. Ravi Malhotra

- B.Com.
- FCA
- DISA (ICA)
- CERTIFIED FINANCIAL PLANNER^{CM}

Vipin Sehgal CFP^{CM}

- B.Com.
- NCFM Diploma in Capital Market (Dealers) Module
- AMFI Certified for Mutual Funds
- IRDA Certified for Life Insurance

Neeraj Nagpal CFP^{CM}

- B.Com.
- AMFI Certified for Mutual Funds
- IRDA Certified for Life Insurance

NCFM Certification In:

- Capital Market (Dealers) Module
- Derivatives Market (Dealers) Module
- Commodities Market Module

Kavita Malhotra

- M.Com. Previous (10th Rank in Kurukshetra University)
- AMFI Certified for Mutual Funds
- IRDA Certified for Life Insurance
- Certification in all Modules of CFP^{CM} Curriculum (FPSB India)

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NISM –Series –I:
Currency Derivatives
Certification Examination

Distribution of weights in the

Distribution of weights of the Capital Market (Dealers) Module Curriculum

Chapter No.	Title	Weights (%)
1	Trading	30
2	Clearing and Settlement	25
3	Trading Membership	20
4	Legal Framework	15
5	An Overview of the Indian Securities Market	5
6	Fundamental Valuation Concepts	5

Exam Pattern

Test Duration	105 Min.
No. of Questions	60
Maximum Marks	100
Pass %	50
Negative Marking	25%

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Derivatives Market (Dealers) Module

Index

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Chapter 1
Introduction to Derivatives

1. The most traded contract in the world is:

   A. Kospi 200 options, korea Exchange
   B. 3-month Eurodollar futures,CME
   C. Nifty Future,NSE
   D. Euro-Bund Futures,Eurex

2. The Highest volume in exchange traded futures and options are seen in the following sector.

   A. Agricultural commodities
   B. Energy Products
   C. Equity Indices
   D. Interest Rate

3. Futures trading commenced first on

   A. Chicago Board of trade
   B. Chicago Mercantile Exchange
   C. Chicago Board Options Exchange
   D. London International Financial Futures and options Exchange

4. The underlying asset for a derivative contract can be

   A. Equity
   B. Commodities
   C. Interest Rate
   D. Any of the above

5. Derivatives first emerged as_____ products.

   A. Speculative
   B. Hedging
   C. Volatility
   D. Risky

6. Who are the participants in the derivative market?

   A. Hedgers
   B. Speculators

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C. Arbitrageurs
D. All of the above

7. The First Exchange traded financial derivative in India commenced with the trading of.

A. Index Future
B. Index Options
C. Stock Options
D. Interest Rate Futures

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Answers Sheet Chapter 1			
1	A	16	B
2	C	17	A
3	A	18	A
4	D	19	A
5	B	20	C
6	D	21	C
7	A	22	C
8	D	23	A
9	A	24	C
10	D	25	A
11	C	26	D
12	D	27	A
13	D	28	C
14	D	29	C
15	D	30	A

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CHAPTER 3
Introduction to future and Options

1. Nifty includes the........most liquid stocks that trade on NSE.

   A. 30
   B. 50
   C. 100
   D. 50

2. The Indian Company which provides professional index management services is

   A. IISL
   B. NSCCL
   C. S$P
   D. CRISIL

3. Impact cost measures the

   A. Volatility of the stock
   B. Liquidity of the stock
   C. Return on a stock
   D. None of the above

4. Assume that the base value of a market capitalization weighted index was 1000 and the base market capitalization was Rs. 35000 crore. If the current market capitalization is Rs. 77000 crore, the index is at

   A. 2200
   B. 2250
   C. 1200
   D. 1350

5. The Market impact cost on a trade of Rs. 3 million of the fully nifty works out to be about 0.5%. This means that if Nifty is at 4000, a buy order will go through at roughly

   A. 4020
   B. 4050
   C. 4500
   D. None of the above

6. Index funds are managed

   A. Actively

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B. Passively
C. Family
D. None of the above

7.   Which of the following cannot be an underlying asset for a financial derivative contract?

A. Equity index
B. Interest rate
C. Commodities
D. Foreign exchange

8.   Which of the following exchanges was the first to start trading financial futures?

A. Chicago Board of Trade
B. Chicago Board Options Exchange
C. Chicago Mercantile Exchange
D. London International Financial Futures and Options Exchange

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Answers Sheet Chapter 3					
1	B	18	A	35	A
2	B	19	A	36	D
3	B	20	C	37	A
4	A	21	C	38	A
5	A	22	A	39	A
6	B	23	C	40	A
7	C	24	A	41	B
8	C	25	A	42	A
9	A	26	A	43	C
10	C	27	A	44	A
11	C	28	B	45	A
12	B	29	C	46	B
13	D	30	A	47	C
14	A	31	B		
15	A	32	A		
16	C	33	A		
17	B	34	B		

Chapter -3
Solutions

4)   Index = $\dfrac{\text{Current Market Capitalization}}{\text{Base Market Capitalization}}$ x Base Value

   Index = $\dfrac{77000}{35000}$ x 1000

   = 2200

5)   Buy order   = Current cost + Impact Cost
   = 4000+ (4000x.5%)
   = 4000+20
   = 4020

13)   Break even for buyer of a call = Strike price + premium
   = 176 + 18
   = 194

45)   **A)**
   Time value of put option = Market Price of put option – Intrinsic Value

   Intrinsic value   = Max [0, Exercise price – Spot price]
   = Max [0,163 – 165]
   = 0
   = 3 – 0
   = 3

46)   **B)**
   Selling Price   = 396000
   On last Thursday Purchase price = 410 x 10 x 100
   = 410000

   Loss   = 410000 – 396000
   = 14000

47)
   Time value of call option = Market price of call option – Intrinsic value
   Intrinsic value   = Max [0, Spot price – Exercise price]
   = Max [0, 50 – 45]
   = 5

   Time value   = 9 – 5
   = 4

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Chapter 4
Application of Future and Options

1. On 15th January Mr. Arvind Sethi bought a January Nifty futures contract which cost him Rs.240000.Each Nifty Futures Contract is for delivery of 100 Nifities. On 25th January, the index Closed at 2460.How much profit/loss did he makes?

    A. +6000
    B. -3000
    C. -4500
    D. +2500

2. Kantaben sold a January Nifty Futures Contract for Rs. 240000 on 15th January. Each Nifty futures contract is for delivery of 100 Nifities. On 25th January, the index closed at 2450.How much profit/loss did she make?

    A. -7000
    B. -5000
    C. +5000
    D. +7000

3. On 15th January Mr. Kajaria bought a January Nifty Futures contract which cost him Rs. 240000, Each Nifty Futures contract is for delivery of 100 Nifities. On 25th January, the index closed at 2360, how much profit/loss did he make?

    A. +6000
    B. -4000
    C. -3000
    D. +2500

4. Krishna Seth sold a January Nifty Futures contract For Rs. 240000 on 15th January. Each Nifty futures contract is for delivery of 100 Nifities. On 25thg January, the index closed at 2350.How much profit/loss did he make?

    A. -7000
    B. -5000
    C. +5000
    D. +7000

5. A Speculator with a bullish view on a security can

    A. Buy stock futures
    B. Buy index Futures
    C. Sell stock futures

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D. Sell Index Futures

6. Mohan owns a thousand shares of Reliance. Around budget time, he get uncomfortable with the price movements. Which of the following will give him the hedge he desires?

   A. Buy 10 Reliance futures contracts
   B. Sell 10 Reliance futures contracts
   C. Buy 5 Reliance futures contracts
   D. Sell 5 Reliance futures contracts

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Answers Sheet Chapter 4							
1	A	21	A	41	C	61	B
2	B	22	C	42	B	62	D
3	B	23	D	43	B	63	C
4	C	24	C	44	B	64	B
5	A	25	C	45	A	65	A
6	B	26	D	46	B	66	C
7	D	27	D	47	A	67	C
8	B	28	D	48	B	68	A
9	B	29	A	49	C	69	C
10	D	30	D	50	B	70	B
11	D	31	D	51	A	71	B
12	B	32	B	52	C	72	B
13	D	33	C	53	A	73	A
14	D	34	C	54	A	74	A
15	B	35	B	55	C	75	C
16	C	36	B	56	B	76	B
17	A	37	D	57	A	77	C
18	C	38	A	58	A		
19	B	39	A	59	A		
20	B	40	D	60	D		

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Chapter -4
Solution

1) Purchase price   = 240000
   On closing sale price = 2460 x 100
                        = 246000
   Profit   = 246000 – 240000
                        = 6000

2) (2450 x 100 - 240000) = -5000

3) (2360 x 100 - 240000) = -4000

4) (240000 – 2350 x 100) = +5000

7) (271 x 100 x10 – 296000) = -25000

8) (3040000 – 1340x100x20) = 36000

9) 30/1000 = 3%
   3 – 0.4 = 2.6% for 2 months
             = 1.3% for 1 month

10) Buy price = 15
    Sale price = 2295 – 2260
             = 35
    Net pay off = 35-15
           = 20
            = 20x100
            = 2000

11) Buy price = 60
    Sale price = 2240 – 2260
             = 0
    Net pay off = 0-60
           = -60
            = -60x100
           = -6000

12) Buy price = 20
    Sale price = 2230 – 2290
             = 0
    Net pay off = 0-20

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$$= -20$$
$$= -20 \times 100$$
$$= -2000$$

13) Buy price = 20

Sale price = 2235– 2260
$$= 0$$

Net pay off = 0-20
$$= -20$$
$$= -20 \times 100$$
$$= -2000$$

14) Return = 160/4000 x 100
$$= 4\%$$

Net return = 4 -.25 + .1
= 3.85 for 2 months
= 1.92 for 1 month

15) Return = 20/4000 x 100
$$= .5$$

Profit if invested
Risk lessly = 4000 x 10/100 x2/12
= 800/12
= 66

16) F = S e^{rt}
= 720 e $^{.1 \times 2/12}$
= 731.90

17) (2460 x100 – 240000) = 6000

18) (2450 x100 – 240000) = 5000

19) T = 2/12 = .16

20) (2350 x 100 – 240000) =- 5000

23) (271x100x10 – 296000) = -25000

24) (304000 – 134x20x100) = -36000

25) 30/1000 =3%
3-.4 = 2.6% for 2 months
= 1.3% for 1 month

26) Buy price = 15

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Sale price = 2295– 2260
              = 35
Net pay off = 35-15
              = 20
              = 20x100

              = 2000

27) Buy price = 60

Sale price = 2240– 2260
              = 0
Net pay off = 0-60
              = -60
              = -60x100

              = -6000

52) Time value of put= Market Value – Intrinsic Value

Intrinsic Value = Max [0, Exercise Price – Spot Price]

              = Max [0,240 -230]
              = 10
Time value   = 19-10
              = 9

54) Time value = 6 – [0, 80-75]
              = 1

55) Break even for Put option Buyer = Strike Price – Premium
              = 4176 – 18
              = 4158

56) F   = $S e^{rt}$
              = $1000 e^{.1 \times 1/12}$
              = 1008.35

57) R = Continuous Compounding Method
        = l_n (1.12)
        = .1133

Go to calculator on computer. Go to view and Select Scientific Calculator. Now type 1.12 then ln you will get answer.

58) Value of Put = 12-(0,75 – 70)
              = 12-5
              = 7

59) 2200 x15% = 330

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Put to be purchased = 2200 – 330
                    = 1870

60) Purchase Price = 25
   Sale Price   = 994 -992
               = 2
   Pay out   = 25 – 2
               = 23x600
               = 13800

62) Sale Price = 28
   Purchase Price = 1553 -1503
               = 50
   Pay in   = 50 – 28
               = 22x300
               = 6600

63) Break even = 2176-18
             = 2158

64) F   = S e^{rt}
      = 2050 $e^{.1x1/12}$

65) R = Continuous Compounding Method
     = ln (1.10)
     = 0.095

66) 4000x10% = 400
    4000 – 400= 3600

67) 4000x10% = 400
    4000 – 400= 3600

68) 400000x1.5
   = 600000

69) 4200 – 30
   = 4170

70) 3/12 = .25

71) F   = S e^{rt}
     = 2000 $e^{.1x1/12}$
     = 2016.75

72) 1/12 = .08

73) **r** = ln (1.09)
    = .086

76) t = 2/12 = .016

77) 4200 x12% = 504
4200 – 504 = 3696

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CHAPTER 6
Clearing and Settlement

36. To safeguard against potential losses on out-standing positions _____ is collected.

    A. Premium margin
    B. Assignment margin
    C. Initial Margin
    D. None of the above

37. _____ seeks to measure the amount of value that a portfolio may stand to lose within a certain time horizon due to potential changes in underlying asset spot price.

    A. Black & Scholes model
    B. VAR methodology
    C. Binomial model
    D. Volatility model

38. Which of the following should be disclosed separately for long and short positions, in respect of each series of equity index futures as of the balance sheet date?

    A. Number of equity index futures contracts having open position
    B. Names of the clients of each trade in the units of equity index futures
    C. Names of the dealers of each trade in the units of equity index futures
    D. All of the above

39. MTM settlement stands for _____.

    A. Member to Member settlement
    B. Market to Market settlement
    C. Money to Money settlement
    D. Monday to Monday settlement

40. _____is allowed to only clear trades of others but not trade themselves.

    A. Trading member - clearing member
    B. Trading members are not allowed to clear their own trades
    C. Professional clearing member
    D. Self clearing member

41. The initial margin amount is based on _____.

    A. Black And Scholes calculations
    B. Binomial calculations
    C. VAR calculations

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D. Theoretical pricing calculations

42. VAR methodology seeks to measure the amount of value that a portfolio may stand to lose within a certain horizon time period due to potential changes in _____.

    A. Underlying exposures
    B. Underlying asset spot price
    C. Underlying stock volatility
    D. Underlying index volatility

43. Forward contracts on expiration have to settle by _____.

    A. Cash
    B. Difference in price
    C. Payment of margin
    D. Delivery of the asset

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colspan="8"	**Answer Sheet Chapter 6**
1	B	21	B	41	C	61	C
2	D	22	A	42	B	62	B
3	B	23	D	43	D	63	B
4	A	24	D	44	B	64	C
5	A	25	B	45	C	65	D
6	C	26	D	46	A	66	C
7	B	27	C	47	B	67	D
8	A	28	B	48	A	68	D
9	D	29	C	49	A	69	C
10	C	30	C	50	B	70	D
11	C	31	D	51	B	71	D
12	B	32	C	52	A	72	B
13	A	33	A	53	B	73	C
14	B	34	D	54	B	74	D
15	C	35	C	55	D	75	C
16	A	36	C	56	C	76	C
17	C	37	B	57	C		
18	B	38	A	58	D		
19	B	39	B	59	D		
20	A	40	C	60	B		

Chapter 6
Solutions

1) 2000 – 1400 = 600
   600 x 100   = 60000

2) 5400 -5000 = 400

3) [1600x545 +200x535] – 1800 x540
   [872000 + 107000] -972000
   = 7000

4) 4600 – 4200
   = 400

5) (400x130 + 200x130) – (600x140)
   = 78000 – 8400
   = -6000

6) 1800 + (1200 – 1000)
   = 2000

7) 3000 x 1820 sold   = 5460000
   3000 x1780 purchased   = 5340000
   2000 x 73 sold   = 146000
   Payout = 5460000 + 146000 – 5340000
            = 266000

8) Sold   = 800 x30
   Purchase = 800 x 40(590 – 550)
   Pay in   = 8000

9) (600 x345 +100 x335) – 700 x 340
   = (207000 + 33500) – 238000
   = 2500

10) TM 1400 x 410 – [700 x 400 + 700 x408)
        574000   - 280000 + 285600
        574000   - 565600
        8400
    Client A =1000 x408 – 1000 x 390
              = 18000
    Client B = 1500 x 408 – 1500 x 395
              = 19500
    Net position for TM = 8400+ 18000+19500
                        = 45900

11) $F = Se^{rt}$
    $= 5900\ e.^{13x1/12}$

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= 5965

22) (3000 -2400) x100 = 60000

23) 800 – 400 = 400

24) (600 x1045 + 200x1035) – 800 x1040
 (627000+ 207000) -832000
  2000

25) (400x 1030 + 200x 1030) – 600x 1040
  = -6000

26) 1600 – 1200 = 400

27) Client A   Client B
Buy   Sell   Buy   Sell
800   -   1000   1200
Net outstanding 800 + 200 = 1000

28) Yesterday Short Position = 3000 x 3940   = 11820000
Today Purchase   = 3000 x 3898.60   = 11695800
 Sale   = 2000 x 110   = 220000
 Pay out   = 344200(11820000 + 220000-11695800)

29) Amount to be paid – Received
                          [Intrinsic value of call {Max (0, Spot – Strike)}]
(240 – 200)x 400 - 400x20
Pay in 8000

58) Amount to be paid – Received
                          [Intrinsic value of call {Max (0, Spot – Strike)}]
(884 – 882)x 800 - 25x800
Pay in 18400

59) Amount to be paid – Received
                          [Intrinsic value of call {Max (0, Spot – Strike)}]
(1453 – 1403)x 600 - 30x600
Pay in 12000

60) Amount to be paid on expiry
                          [Intrinsic value of put {Max (0, Strike –Spot)}]
(1620 – 1653)x 800
= 0
As put in out of money on expiry no pay in, pay out on expiry.

61) May 20 short position   = 4153x8000 = 33224000
May 21 value of future he can purchase = 4150x8000 = 33200000
May 21 He sold   = 30x 5000   = 150000
Net obligation   = 3324000+150000-33200000
Pay out   = 174000

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63) Amount received on short position 33x600 = 19800
On expiry value of put = (1520 – 1553)   Max(0,strike – spot)
                                    = 0
No obligation on expiry.

64) May 20 short position   = 1153x4000 = 4612000
May 21 value of future   = 1150x4000 = 4600000
May 21 short of Put   = 28x 3000   = 84000
Net obligation   = 4612000+84000-4600000
Pay out   = 96000

65) Purchase price – sale price
310x100x10 -296000
 Loss = 14000

67) 500+(1000-900)
 = 600

69) 1000+(1000-1000)
 = 1000

70) 3360x100 – 334500
 = 1500 profit

71) Received – Position on closing
5000x25 – 5000 x(505-500)
 = 10000 payout

72) Position on expiry
(1520 – 1553) x 800 = 0
No pay in or pay out

73) (3280 x 100) – 325600
 = 2400

74) Received – closing Position
 1400x11 – (300-297)x1400
 = 11200 pay out

75) 2000 +(2000 -1000)
 = 3000

Sample Paper 1

1. Weekly options trading commenced on NSE in _____.

    A. NSE Does not trade in Weekly Options
    B. 02-Jun-2005
    C. 04-Jul-2005
    D. 04-Jun-2005

2. A stock is currently selling at Rs. 70. The put option to sell the stock at Rs. 75 costs Rs. 12. What is the time value of the option?

    A. Rs. 7
    B. Rs. 5
    C. Rs. 2
    D. Rs. 4

3. _____ is a form of basket options.

    A. Equity index options
    B. Equity index futures
    C. Swaptions
    D. Warrants

4. An option to buy or sell a swap, that becomes operative at the expiry of the option, is called a _____.

    A. Swaptions
    B. futures
    C. basket option
    D. Warrant

5. Derivatives can be used for which of the following?

    A. Hedging
    B. Arbitrage
    C. Speculating
    D. All of the above

6. The maximum brokerage chargeable by a trading member in relation to trades affected in the contracts admitted to dealing on the F&O segment of NSEIL is fixed at _____ of the contract value, exclusive of statutory levies.

    A. 1.50%
    B. 2.50%
    C. 0.75%
    D. 3%

7. Futures trading first emerged in the exchanges located in _____.

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A. London
B. UP
C. Chicago
D. Annual requirements of copper.

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1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Web: www.rifm.in

Sample Paper 2

1. Weekly options traded on NSE follow a _____.

   A. European style settlement
   B. American style settlement
   C. Asian style settlement
   D. Weekly Options are not traded at NSE

2. A stock is currently selling at Rs. 75. The put option to sell the stock at Rs.

   80 costs Rs. 6. What is the time value of the option?

   A. Rs. 1
   B. Rs. 5
   C. Rs. 2
   D. Rs. 4

3. Equity Index Options are a form of _____.

   A. Options on Futures
   B. Basket Options
   C. Swaptions
   D. Warrants

4. Swaptions is an option to buy or sell a _____at the expiry of the option

   A. Swap
   B. Futures
   C. basket option
   D. warrant

5. _____ is one of the uses of Derivatives?

   A. Forecasting
   B. Risk taking
   C. Arbitrage
   D. All of the above

6. To be eligible for options trading, the _____ of a stock is taken into account.

   A. Price Limit

B. Trading Member Position Limit
C. Client Wise Position Limit
D. Market Wide Position Limit

7.   The theoretical futures price is considered for _____ in case a Futures Contract is not traded during the day?

   A. opening price
   B. last traded price
   C. premium settlement
   D. daily mark to market settlement

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1. Swaps can be regarded as portfolios of _____.

    A. Future Contracts
    B. Option Contracts
    C. Call Options
    D. Forward Contracts

2. A stock is currently selling at Rs. 165. The put option at Rs. 163 strike price costs Rs. 3. What is the time value of the option?

    A. Rs. 3
    B. Rs. 2
    C. Rs. 1
    D. Rs. 1.50

3. LEAPS have a maturity of up to _____.

    A. one year
    B. three years
    C. ten years
    D. three months

4. What is the outstanding position on which initial margin will be levied if no proprietary trading is done and the details of client trading are: one client buys 500 units @ 1260. The second client buys 900 units @Rs.1255 and sells 1000 units @Rs.1260?

    A. 1900 units
    B. 2400 units
    C. 500 units
    D. 600 units

5. A payer swaptions is an option to pay _____ and receive _____.

    A. Floating, fixed
    B. Interest, interest
    C. fixed, floating
    D. Options, futures

6. Forward contracts are _____ contracts.

    A. Multilateral
    B. Tri-lateral
    C. Future

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D. Bilateral

6. You are the owner of a 5 million portfolio with a beta 1.0. You would like to insure your portfolio against a fall in the index of magnitude higher than 10%. Spot Nifty stands at 4000. Put options on the Nifty are available at three strike prices. Which strike will give you the insurance you want?

    A. 3,870
    B. 3,840
    C. 3,600
    D. None of the above

7. A receiver swaptions is an option to receive _____ and pay _____.

    A. Fixed, floating
    B. Floating, fixed
    C. Interest, interest
    D. Options, futures

8. The market impact cost on a trade of Rs. 4 million of the S&P CNX Nifty works out to be about 0.06%. This means that if S&P CNX Nifty is at 4000, a sell order of that value will go through at a price of Rs. _____.

    A. 3997.60
    B. 3996
    C. 3,999.50
    D. 3,995.50

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ample Paper 1			
1	A	31	A
2	A	32	C
3	A	33	D
4	A	34	B
5	D	35	D
6	B	36	D
7	C	37	A
8	D	38	D
9	C	39	C
10	C	40	B
11	A	41	D
12	D	42	B
13	A	43	C
14	A	44	B
15	D	45	B
16	C	46	C
17	D	47	B
18	B	48	C
19	D	49	C
20	D	50	B
21	C	51	A
22	A	52	D
23	A	53	D
24	B	54	D
25	C	55	D
26	D	56	A
27	A	57	A
28	C	58	C
29	D	59	B
30	B	60	C

Sample Paper 2			
1	D	31	B
2	A	32	D
3	B	33	C
4	A	34	C
5	C	35	A
6	D	36	A
7	D	37	C
8	C	38	B
9	A	39	B
10	D	40	B
11	D	41	A
12	A	42	C
13	A	43	D
14	B	44	C
15	D	45	A
16	B	46	B
17	C	47	C
18	C	48	D
19	C	49	B
20	A	50	A
21	D	51	D
22	C	52	B
23	C	53	C
24	C	54	C
25	D	55	B
26	B	56	A
27	D	57	C
28	A	58	C
29	A	59	D
30	D	60	A

Sample Paper 3			
1	D	31	C
2	A	32	B
3	B	33	B
4	D	34	B
5	C	35	C
6	D	36	D
7	C	37	B
8	A	38	A
9	A	39	C
10	D	40	A
11	A	41	C
12	A	42	C
13	D	43	B
14	B	44	B
15	C	45	D
16	A	46	B
17	A	47	A
18	C	48	C
19	C	49	C
20	B	50	C
21	A	51	B
22	A	52	B
23	D	53	A
24	B	54	D
25	D	55	D
26	D	56	A
27	C	57	C
28	C	58	A
29	A	59	C
30	A	60	C

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