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Reg. No.

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VI Semester B.B.A. Degree Examination, August/September 2023

BUSINESS ADMINISTRATION
Risk Management And Derivatives
(CBCS Scheme (F+R))
Paper : F.N : 6.5 (Elective)

**Time : 3 Hours****Maximum Marks : 70****Instructions to Candidates :**

Answers should be written in English only.

SECTION - AAnswer any **FIVE** questions. Each question carries **2** marks.**(5×2=10)**

1. a) Define Unsystematic risk.
- b) Define the term derivatives.
- c) What is Initial Margin in futures Contract?
- d) Define Put option.
- e) What is Contango?
- f) Give the Meaning of European option.
- g) Give the Meaning of Lot-size in derivative Contract.

SECTION - BAnswer any **THREE** questions. Each question carries **5** marks.**(3×5=15)**

2. State the Characteristics of Derivatives.
3. Bring out the differences between forwards and futures.
4. Explain Covered call strategy.
5. Nisarga Co. Ltd. is Considering two mutually exclusive projects "A" and "B". You are required to advise about the acceptability of the Project from the following information.

[P.T.O.]



	Project A	Project B
Cost of the Project	Rs.60,000	Rs.60,000

Annual expected Cash inflow for 5 Years

	Project A Rs.	Project B Rs.
Optimistic	30,000	40,000
Most Likely	20,000	20,000
Pessimistic	15,000	5,000

The Cut off rate of the Company is 15%

The Present Value factors of Annuity for 5 years @15% are

Year	P.V.factor
1	0.8696
2	0.7561
3	0.6575
4	0.5718
5	0.4972

SECTION - C

Answer any **THREE** questions. Each question carries **15** marks.

(3×15=45)

- What is Risk ? Explain the classification of risk.
- Dhruva Co. Ltd is Considering purchase of New Machinery. Two alternatives are available each costing Rs.1,00,000/-

The following cash inflows are expected

Year	Alternative 1(Rs.)	Alternative 2(Rs.)
1	40,000	50,000
2	35,000	40,000
3	25,000	30,000
4	20,000	30,000



Company has a target return on Capital of 10%, Calculate risk adjusted net present value of returns if risk Premium rates for alternative 1 is 2% and risk adjusted premium rate for alternative 2 is 8%. Which alternative investment should be preferred.

P.V. at 12%	P.V. at 18%
0.893	0.847
0.797	0.718
0.712	0.609
0.636	0.516

8. Explain in detail Forward and future Contract.
 9. Explain Protective put Strategy and Covered call strategy.
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