R.No. ....

Department of Management

Semester End Examination

MBA-3rd Semester [2017-2018]

Course Name: **Financial Risk Management**

Course Code: **MBA FM-03**

Max Marks: 75

Time: 03:00 Hr

Instructions:

1. Attempt only five questions.
2. Students are allowed to use calculator.

Q1: ABC Company has currently an equity share capital of Rs. 120 lakhs consisting of 1,20,000 equity shares of Rs. 100 each. The management is planning to raise another Rs. 90 lakhs to finance a major program of expansion through one of the four possible financing plans.

The options are: [15]

a) Entirely through equity shares.

b) Rs. 45 lakhs in equity shares of Rs. 100 each and the balance in 8% Debenture.

c) Rs. 30 lakhs in equity shares of Rs. 100 each and the balance through long-term borrowing at 9% interest p.a.

d) Rs. 45 lakhs in equity shares of Rs. 100 each and the balance through preference shares with 5% dividend.

The company's expected earnings before interest and taxes (EBIT) will be Rs. 45 lakhs. Assuming corporate tax rate of 50%, you are required to determine the EPS and comment on the financial leverage that will be authorized under each of the above scheme of financing.

Q2: (a) Explain various general types of risk management strategies. [05]

(b) Mr. Sharma received Rs. 40 lakh from his business partner for a period of one year. What kind of investment strategies you are used to generate income from that amount without decreasing the principle amount. Explain with Alternative possible cases. [10]

Q3: (a) Define the relationship between Risk and Return with suitable example. [05]

(b) Following information is taken from the records of M-square land base company ltd. [10]

Installment capacity	:	2,000 units
Operating capacity	:	1600 unit
Selling price per unit	:	Rs. 20
Variable cost per unit	:	Rs. 14

Calculate operating leverage under the following situations:

$$Fixed\ cost = \begin{matrix} Situation\ (A)\ Rs.\ \ 1{,}600 \\ Situation\ (B)\ \ Rs.\ 2{,}400 \\ Situation\ (C)\ Rs.\ 3{,}000 \end{matrix}$$

Q4: (a) Explain the various functions of Indian Financial Market. [05]

(b) Discuss various instruments of Money and Capital Market. [10]

Q5: (a) What kind of information required by the credit department of bank to analysis the risk factor on an individual, who applied for any type of loan? Explain the importance of each factor with example. [10]

(b) Explain the method to calculate Value at risk. [05]

Q6: (a) Explain various type of operation risk management in Bank. [05]

(b) What do you mean by components pre- settlement risk? Explain with example [05]

(c) What do you understand by arbitragers' opportunity in Foreign Exchange market? [05]

Q7: Define the following with example

(i) Purchasing power parity theory.

(ii) Interest rate parity theory

Q8: (a) What are the differences between Options and Futures derivative contact? [06]

(b)Explain the concept of ADR's; GDR's and ECB with example. [09]