R. No. ....

Department of Management

Semester End Examination

MBA-3rd Semester [2017-2018]

Course Name: Financial Risk Management **Max Marks: 75**

Course Code: MBA-FM-03 **Time: 03:00 Hr**

Instructions:

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

Q1: (a) Explain the concept of Derivative Market with example [05]

(b) How Purchasing Power Parity Theory Work? Explain in detail. [05]

(c) What do you mean by arbitrage opportunity in currency exchange? Explain with example. [05]

Q2: (a) Put in a scenario analysis, the manager to find what happen to equity distribution when the below Revenue and Cost are changed to 55 and 45 respectively. Assume no tax and all profit are distributed to equity holders and there is no debt. [10]

- Start Date: 31 December 2019
- End Date: 31 December 2029
- Revenue (Per Annum): Rs. 45
- Cost (Per Annum): Rs. 25
- Inflation @ 4% per annum

(b) What is the difference between Component Pre-Settlement Risk and Settlement Risk in Loan sector? Explain with example. [05]

Q3: (a) Explain the working mechanism of Circuit filter and Circuit Break in stock market. [05]

(b) Mr. X working in Central Government Job in Delhi from last three years. Having a Gross salary of Rs. 83,000 per month. He has the following financial liability. [05]

- Tax deduction from salary Rs. 10,500 per month
- House rent paid Rs. 19,000 per month
- Car loan EMI Rs. 9,000 per month
- Having two children: First- study in Convent school having monthly expenditure of Rs. 11,000 and second –study in play school having monthly expenditure of Rs. 6,000.

On the basis of the above financial liability he applies for a home loan of Rs. 40, 00,000 (Minimum Rate of EMI Rs. 850 per lakh). Is he eligible to take home loan? Explain it on the basis of Financial Stress Testing Method.

(c) What are the various types of Operation Risk in Bank? Explain in detail. [05]

Q4: (a) What is the use of Assumption in any type of financial planning? Explain with example [05]
(b) What are the various characteristics of financial services? Explain in detail. [05]
(c) Following information is taken from the records of ABC ltd. [05]

Installment capacity	:	3,000 units
Operating capacity	:	2800 units
Selling price per unit	:	Rs. 50
Variable cost per unit	:	Rs. 38

Calculate operating leverage under the following situations:

$$Fixed\ cost = \begin{cases} Situation\ (A)\ Rs.\ \ 3{,}000 \\ Situation\ (B)\ Rs.\ 4{,}000 \\ Situation\ (C)\ Rs.\ 5{,}000 \end{cases}$$

Q5: (a) What is the role of Value at Risk in stock market investment? Explain with example. [03]

(b) Briefly explain the various instrument of Capital Market. [09]
(c) Why Public Sector Unit and Indian Corporation go for ECB? [03]

Q6: (a) How financial leverage used in the planning of capital structure? [05]
(b) A company has sales of Rs. 7, 00,000; variable cost of Rs. 4, 00,000; fixed cost of Rs. 2, 00,000 and long term loan of Rs. 3, 00,000 at 9 % rate of interest. Calculate the composite leverage. [05]
(c) What are the various function of Banking? Explain in detail. [05]

Q7: (a) Explain the working mechanism of online stock market trading. [05]
(b) If the real interest rate is 3.5% and expected inflation is 5.4%, then what is the approximate nominal rate of return? [05]
(c) Why ULIPS is more effective then Mutual fund? Explain with example. [05]

Q8: (a) What are the various types of foreign exchange risk? Explain in detail. [05]
(b) ABC Company has currently an equity share capital of Rs. 100 lakhs consisting of 1, 00,000 equity shares of Rs. 100 each. The management is planning to raise another Rs. 75 lakhs to finance a major program of expansion through one of the four possible financing plans.
The options are: [10]

- Entirely through equity shares.
- Rs. 36 lakhs in equity shares of Rs. 100 each and the balance in 10% Debenture.
- Rs. 27 lakhs in equity shares of Rs. 100 each and the balance through long-term borrowing at 10% interest p.a.
- Rs. 37 lakhs in equity shares of Rs. 100 each and the balance through preference shares with 7% dividend.

The company's expected earnings before interest and taxes (EBIT) will be Rs. 45 lakhs. Assuming corporate tax rate of 25%, 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.