

Introduction to Derivatives and Financial Markets –
Assignment 1

Roll no.1

Q1. C

Q2. C

Q3. D

Q4. C

Q5. C

Q6. C

Q7. B

Q8. B

Q9. B

Q10.

CQ11.

BQ12.

DQ13.

AQ14.

DQ15.

- a) The minimum variance hedge ratio is $0.95 \times \frac{0.43}{0.40} = 1.02125$
b) The hedger should take a short futures position.
c) The optimal number of contracts with no tailing-

$$1.02125 \times \frac{55000}{5000} = 11.23 \text{ (approx. 11)}$$

- d) The optimal number of contracts with tailing-

$$1.012125 \times \frac{55000 \times 28}{5000 \times 27} = 11.65 \text{ (approx. 12)}$$