

Introduction to Derivatives and Financial Markets – Assignment 1

Sabyasachi Rathore

Roll No-28

Q1. C

Q2. C

Q3. D

Q4. C

Q5. C

Q6. C

Q7. B

Q8. B

Q9. B

Q10. C

Q11. B

Q12. D

Q13. A

Q14. D

Q15.

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-

$$1.02125 \times \frac{55,000}{5,000} = 11.23 \quad (\text{approx. } 11)$$

d) The optimal number of contracts with tailing-

$$1.02125 \times \frac{55,000 \times 28}{5,000 \times 27} = 11.65 \quad (\text{approx. } 12)$$