

INTRODUCTION TO DERIVATIVE MARKET

ASSIGNMENT :- 1

- 1) c) Yes, only a limited number of currencies are traded in the futures market and that also in standardized amounts.
- 2) c) 1 and 3 only
- 3) (a) Equity shares
- 4) (b) Offer through prospectus
- 5) c) Clearing house
- 6) a) Maintenance margin
- 7) b) Are not protecting their commodity holdings.
- 8) b) Coca prices will decline below \$1300 and Hershey will purchase its coca at a price of \$1300.
- 9) b) The investor has made a loss of \$4000
- 10) =>c) A long position in a put
- 11) =>b) Sell 16 contracts
- 12) =>d) 72 cents
- 13) =>b) The beef producer should take a short position in 3 December contracts closing out the position on November 15.
- 14) =>d) A short position in 26 contracts.
- 15)

MINIMUM variance hedge ratio is 1.02125

Investor is buying the 50,000 share and to protect the return from market volatility , he should short the future contract to hedge the portfolio

So , $h = 1.02125$

Optimal no. of contract = $1.02125 * (55,000 / 5000) = 11.23$

Considering Daily settlement of future contract, optimal no. of contract should be $=1.02125 \times (55,000 \times 28 / 5000 \times 27) = 11.65$