

Reg. No.

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**B.E / B.TECH. DEGREE EXAMINATIONS, MAY 2024**

Sixth Semester

**SE18010 – OPTION TRADING STRATEGIES***(Common to all branches)***(Regulation 2018A)****TIME: 3 HOURS****MAX. MARKS: 100**

- CO 1** To understand the basics of Derivatives Markets, Types of Derivatives, Uses & Economic benefits
- CO 2** To understand the basics uses of Derivatives for hedging, Trading, Arbitrage benefits in OTC & Exchange trading platform
- CO 3** To understand the basics of Options and basic pay off graphs
- CO 4** To understand the pricing and valuation of Options.
- CO 5** To understand and implement various Option trading strategies

**PART- A (10 x 2 = 20 Marks)***(Answer all Questions)*

|   | CO | RBT LEVEL |
|---|----|-----------|
| 1. Define Derivatives.  | 1  | 1         |
| 2. Name the different types of underlying used for derivatives.   | 1  | 2         |
| 3. Define Spot market.  | 2  | 1         |
| 4. What is meant by Index in financial markets?   | 2  | 2         |
| 5. Define Options contract.   | 3  | 1         |
| 6. What is Call option?   | 3  | 1         |
| 7. Define Intrinsic value and Time value. Spot Price is 100 rupees, Strike price is 95 rupees. Call Option premium is 7 rupees. What is the intrinsic value and time value? | 4  | 2         |
| 8. Write short notes on Horizontal spread, Vertical spread, Diagonal spread.  | 4  | 1         |
| 9. Why do we use strategies in derivatives?   | 5  | 2         |
| 10. What is calendar spread?  | 5  | 2         |

**PART- B (5 x 14 = 70 Marks)**

|   | Marks | CO | RBT LEVEL |
|---|-------|----|-----------|
| 11. (a) What are the differences between OTC derivatives and Exchange traded derivatives? | (14)  | 1  | 3         |
| <b>(OR)</b>   |       |    |           |
| (b) What are the uses and economic benefits of derivatives?                               | (14)  | 1  | 3         |

**12. (a)** Explain in detail the 3 major applications of derivatives – Hedging, Trading and arbitrage. (14) 2 3

**(OR)**

**(b)** Explain in detail: Cash and carry arbitrage vs Reverse cash and carry arbitrage (14) 2 3

**13. (a)** Briefly explain the following concepts in Options. (14) 3 3

- a. Premium b. Lot size c. American option d. European option  
e. Strike price f. Assignment of option g. Exercising of option

**(OR)**

**(b)** Write short notes on – LONG CALL, SHORT CALL, LONG PUT, SHORT PUT. (14) 3 3

**14. (a)** What are the factors influencing the prices of Futures and Options? (14) 4 3

**(OR)**

**(b)** What are the 2 commonly used methods of Option pricing? Briefly explain the same. (14) 4 3

**15. (a)** Write short notes on the following (14) 5 3

1. LONG STRADDLE 2. LONG STANGLE 3. SHORT STRADDLE  
4. SHORT STANGLE.

**(OR)**

**(b)** Explain the following: 1. Max pain theory 2. Relationship between OI & Price 3. Delta hedging. (14) 5 3

**PART- C (1 x 10 = 10 Marks)**  
(Q.No.16 is compulsory)

|   | Marks       | CO       | RBT LEVEL |
|---|-------------|----------|-----------|
| <b>16.</b> Compare and contrast the 4 main types of derivatives: Forwards, Futures, Options, Swaps. | <b>(10)</b> | <b>1</b> | <b>4</b>  |

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