



BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) :

Course Code & Name : **FIN3113 Financial Derivatives and Instruments**
 Trimester & Year : May – August 2018
 Lecturer/Examiner : Khairil Bahari/Leow Hon Wei
 Duration : 3 Hours

INSTRUCTIONS TO CANDIDATES

- This question paper consists of 2 parts:
 - PART A (25 marks) : Answer all THREE (3) short answer questions. Answers are to be written in the Answer Booklet provided.**
 - PART B (75 marks) : Answer all FOUR (4) structure answer questions. Answers are to be written in the Answer Booklet provided.**
- Candidates are not allowed to bring any unauthorized materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.
- This question paper must be submitted along with all used and/or unused rough papers and/or graph paper (if any). Candidates are NOT allowed to take any examination materials out of the examination hall.
- Only ballpoint pens are allowed to be used in answering the questions, with the exception of multiple choice questions, where 2B pencils are to be used.

WARNING: The University Examination Board (UEB) of BERJAYA University College regards cheating as a most serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from BERJAYA University College.

Total Number of pages = 3 (Including the cover page)

PART A : SHORT ANSWER QUESTIONS (25 MARKS)

INSTRUCTION(S) : Answer **ALL** questions. Write your answers in the Answer Booklet(s) provided.

Question 1

Explain the **THREE (3)** differences between futures contract and forwards contract.

(9 marks)

[Total: 9 marks]

Question 2

Define the following

(a) Financial option

(3 marks)

(b) Call option

(3 marks)

(c) Put option

(3 marks)

[Total: 9 marks]

Question 3

Explain the primary function of the derivatives and how this benefit in asset investment. Provide an example.

(7 marks)

[Total: 7 marks]

[Total: 25 marks]

END OF PART A

PART B : STRUCTURE QUESTIONS (75 MARKS)

INSTRUCTION(S) : Answer all **FOUR (4)** questions. Write your answers in the Answer booklet(s) provided.

Question 1

(a) Provide **THREE (3)** factors affecting option prices. (6 marks)

(b) Explain how the above **THREE (3)** factors affect option prices. Provide the example for each factor. (12 marks)

[Total: 18 marks]

Question 2

(a) Explain the term “at-the-money” for call option and put option. (8 marks)

(b) Explain the term “out-of-the-money” for call option and put option. (8 marks)

(c) Explain the term “in-the-money” for call option and put option. (8 marks)

[Total: 24 marks]

Question 3

(a) Define the term “hedging with futures contracts”. (3 marks)

(b) Explain the **THREE (3)** potential risks that are associated with hedging using futures contracts. Provide an example each. (15 marks)

[Total: 18 marks]

Question 4

A commodity futures contract is a type of long-term contract designed to avoid the disadvantages. Provide **THREE (3)** disadvantages. (15 marks)

[Total: 15 marks]

[Total: 75 marks]

END OF EXAM PAPER