# April 2022 Examination

**Strategic Financial Management**

**Q1. What is an Options contract? Explain “Right but not obligation”. You have bought a Call Option on a stock of HLU Ltd. with expiration date of 31 March 22. The Strike price is Rs. 200 and the Option premium you paid for the option is Rs. 20. What would be the impact of the following spot prices on 31 March 22 on your decision to exercise the option?**

**As a holder of the option, what would be the profit or loss amount in each of these spot prices?**

**Also compute the profit or loss to the writer of the option in each of these scenarios.**

**Assume that the option writer would need to buy the stock at the spot price on the expiration date in case you decide to exercise the option.**

**Spot price on 31 March 22: Rs. 100, Rs. 150, Rs. 200, Rs. 250, Rs. 300 and Rs. 350 (10 Marks)**

**Ans 1.**

**Introduction:**

Alternatives contracts are usually related to a situation where in a supplier may also opt to buy the stock at a specific price for a hard and fast length. While the seller has accepted this positive quantity of time, he has denied his possibility to revoke the offer. Proper but not an obligation refers to a state of affairs where one agreement entity will have a particular privilege to revel in legally. Still, the individual having discretion of the privilege no longer owes a responsibility

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**Q2. In the context of bonds, what is a Yield curve? What are the types of Yield curves and what does it represent about the market outlook? Using the following data tables draw the yield curves and identify the type of yield curve. (10 Marks)**

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**Ans 2.**

**Introduction:**

Various graphical representations exhibit the special conditions prevailing within the marketplace in an economy. It also facilitates forecasting destiny actions inside the market. A yield curve is one such curve that indicates the connection between the interest rates of bonds and the maturity dates. It has three types: normal, Flat, and Inverted.

**Q3.a. Explain the concept of Time value of money. (5 Marks)**

**Ans 3a.**

**Introduction:**

As is constantly said, cash grows over the years, most straightforward if you start investing it. It won’t grow in case you usually preserve it underneath your mattress. This basic idea of living has now become a core precept of finance, as “Time value of money.” It says that cash is worth more now than it might have at a future date because it will earn something in this potential length.

**Q3. b. In the context of capital budgeting explain Sensitivity analysis and Scenario analysis. What are the differences of the two? (5 Marks)**

**Ans 3b.**

**Introduction:**

Every time any business is installed, the investor and the proprietor want to research the risk and shortcomings of any such enterprise and policy. Threat management is not the handiest thing in a start-up. However, it's also there in already installation organizations and even in an ultimately successful business. Whenever there's a trade inside the company's method, there usually comes