**Derivatives and its Application**

**September 2023 Examination**

**Q1 Mr. X a well-qualified investor is using a combination of different derivative contracts to improve his portfolio risk-adjusted return. He has created a long position in a forward contract and Put option on an asset with the same maturity time and a strike price of the put option contract is equal to the forward price of the asset at the time the portfolio is set up. Describe the profit from the investor’s portfolio with help of a suitable diagram. [Use Excel for Diagram] (10 Marks)**

**Ans :**

**Introduction:**

In today's dynamic and ever-evolving monetary markets, investors continuously search for progressive techniques to decorate their portfolio performance and mitigate risks. One such astute investor, Mr. X, a nicely-qualified character with eager know-how of derivative contracts, has embarked on a quest to optimize his portfolio's danger-adjusted returns. Via an aggregate of different by-product instruments, Mr. X's objectives are to leverage his economic acumen and capitalize on market opportunities.

This assignment delves into the resourceful approach followed by Mr. X, wherein he has ingeniously crafted a portfolio using an extended role in a forward contract and a put option

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**Q2. An investor would like to speculate on a rise in the price of a certain stock. The current stock price is $29, and a three-month call with a strike of $30 costs $2.90. You have $5,800 to invest. Identify two alternative applications of derivatives, one involving an investment in the stock and the other involving an investment in the option. What are the potential gains and losses from each? (10 Marks)**

**Ans :**

**Introduction**

Derivatives are financial devices whose value is derived from the underlying property. They play an essential role in economic markets, allowing traders to hedge chance, speculate on price moves, and decorate overall portfolio performance. Regular derivatives programs are investing in the inventory immediately and investing in options. In this paper, we can discover these programs within the context of an investor speculating on an upward thrust

**3. Suppose that put options on a stock with strike prices $30 and $35 cost $4 and $7, respectively. How can the options be used to create.**

**a) Construct a table that shows the profit and payoff for a bull spread and (5 marks)**

**Ans ;**

**To construct the essay:**

**1. Introduction:**

A bull spread is a buying and selling approach that includes the simultaneous purchase and sale of two options at the identical underlying stock with exclusive strike fees but the same expiration date. This approach is typically used when investors expect the underlying inventory charge to increase moderately. The two options worried in a bull spread are the

**b) Construct a table that shows the profit and payoff for a bear spread? (5 Marks)**

**Ans ;**

**Bear Spread Options Strategy: Maximizing Profit in a Bearish Market**

**Introduction**

Market situations. One such method is the undergo unfold. A popular alternative strategy buyers utilize to capitalize on bearish market moves. In this paper, we can delve into the concept and alertness of the undergo spread alternatives approach and show how it may generate income in a declining inventory marketplace.