

CS/BIRM/SEM-6/BIRM-604/2013

2013

**FINANCIAL AND TREASURY RISK
MANAGEMENT**

Time Allotted : 3 Hours

Full Marks : 70

The figures in the margin indicate full marks.

*Candidates are required to give their answers in their own words
as far as practicable.*

GROUP – A

(Multiple Choice Type Questions)

1. Choose the correct alternatives for the following : $10 \times 1 = 10$

i) Treasury Management refers to efficient management of

..... to balance liquidity and profitability in a
business.

a) Forex risk b) Operations risk

c) Market risk d) Financial risk.

ii) LIBOR stands for

a) Lloyds Inter Bank Operation Rate

b) Local Intelligence Branch of Receivables

c) London Inter Bank Offer Rate

d) None of these.

iii) Derivatives comprises of

a) financials b) commodities

c) both of these d) none of these.

iv) Futures and Options are two commonly used as

a) financial intermediately

b) financial swaps

c) money market instrument

d) financial derivatives.

v) The source of financial risk in a business is

- a) credit risk b) market risk
- c) liquidity risk d) all of these.

vi) S and P CNX Nifty futures are traded in

- a) BSE b) NSE
- c) CSE d) DSE.

vii) Va R stands for

- a) Value after Replacement
- b) Value after Risk
- c) Value at Risk
- d) None of these.

viii) Money market instruments comprises

- a) treasury bills b) certificates of deposits
- c) commercial papers d) all of these.

ix) The term "REPO" means

- a) Sale and Re-purchase Agreement
- b) Ready Forward Agreement
- c) Both of these
- d) none of these.

x) A government security is also known to be

- a) gilt edged security
- b) government promissory note
- c) public debt office (PDO) bearer security
- d) all of these.

GROUP – B

(Short Answer Type Questions)

Answer any *three* of the following. $3 \times 5 = 15$

2. Discuss about the risks that inherent in option contracts affecting both buyers and sellers.

3. Explain how the different categories of participants help in the development of the derivatives market.
4. State the various approaches that can be adopted to manage financial risks.
5. Highlight the various features of any forward contract.
6. 'A swap bank has to entail certain risk, which are inherent to the swap business and are interrelated.' Explain the risks involved in the swap business.

GROUP – C

(Long Answer Type Questions)

Answer any *three* of the following. $3 \times 15 = 45$

7. Define Value at Risk. Discuss the different methods adopted to measure value at risk 5 + 10
8. What is financial risk ? What are its major components ?
Briefly describe the linkages between business (corporate) strategy and financial risk. 2 + 6 + 7
9. Discuss the concept of Integrated Treasury Management in major Banks in India. What are the merits of it ? 10 + 5
10. What is Money market ? What are the major instruments traded through money market ? Discuss in brief the recent developments in Indian money market. 2 + 6 + 7
11. A corporate treasurer standing in February '09 intends to borrow money in the middle of May 2009 for a period of three months. He has a fear that interest rate in money market may rise by the day of borrowing. Since such a situation would add to the cost of borrowing, a future position is taken so that there will be hedging in the event of rise in the interest rate

Three months interest rate futures are quoted on index

basis. Index is 100 base points (bp) minus futures interest rate and the current quote is at 93.5 %.

Show the position of treasurer from future contracts if the May 2008 actual interest rate rises 8% and the actual amount of borrowing in Rs. 5 million.