



The Institute of
Bankers Pakistan

Time Allowed: 3 Hours

Maximum Marks: 100

Date: March 14, 2023

**Financial Derivatives
AIBP (Specialization)**

Roll No:

Instructions:

- i. Attempt ALL questions;
- ii. Answers must be neat, relevant and brief;
- iii. In marking the answers, the examiner takes into account clarity of exposition, logic of arguments, presentation and language;
- iv. Read the instructions printed inside the top cover of answer script CAREFULLY before attempting the paper;
- v. DO NOT write your Name, Access No. or Roll No. etc. anywhere inside the answer script(s);
- vi. Candidates are advised not to mark any of the objective answer on the Question Paper, otherwise their paper will be cancelled;
- vii. Question Paper must be returned to invigilator before leaving the examination hall;

SECTION B: SUBJECTIVE

Attempt ALL Questions.

(40 Marks)

Q1.

- A. What is the main difference between a forward contract and a future contract? **(02 Marks)**
- B. Define a swap contract. **(02 Marks)**
- C. List the two common purposes of derivative contracts. **(02 Marks)**

Q2. Duration of bond X is 5.00.

Required:

- A. What does duration indicate? **(1.5 Marks)**
- B. If next day, the market interest rate goes up by 1.50% how much will the bond X's price change on that day? **(1.5 Marks)**
- C. Based on part (B) will the price increase or decrease? **(1.5 Marks)**
- D. A Zero-coupon bond has a maturity of 5 years, what will be its duration? **(1.5 Marks)**

Q3.

- A. List the THREE types of derivative transactions which are currently permitted under the Financial Derivatives Business Regulations. **(03 Marks)**
- B. Specify the types of the entities which are eligible to undertake derivative transactions in Pakistan. **(03 Marks)**
- C. Write down FOUR items from the criteria for any entity to become eligible for undertaking derivatives in Pakistan. **(04 Marks)**

Q4. State the advantages and disadvantages of Currency Futures. (TWO each) **(06 Marks)**

Q5. Discuss the various internal hedging techniques for an organization to hedge against foreign exchange risk. **(06 Marks)**

Q6. Discuss the following terms with reference to options contracts: **(06 Marks)**

- A. In the money
- B. Out of the money



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C. At the money

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