PGDM (IB) 2018-20

International Commodity Management

IB-501

Trimester – V, End-Term Examination: December 2019

Time allowed: 2 Hrs 30 Min
Max Marks: 50

Roll No: ____________

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means.** All other instructions on the reverse of Admit Card should be followed meticulously.

Sections	No. of Questions to attempt	Marks	Total Marks
A	3 question with internal choices	3*10	30
B	Compulsory Case Study	20	20
			50

Section A: Please attempt the below questions with internal choices provided in each. (10 marks each)

Q1. (CILO 1)

A) What is margin? Why does a commodity exchange require margin? Explain the various margins imposed by the exchange with examples.

Or

B) In a speculative Futures position what is "Buying a spread" and "Selling a spread. Explain clearly with examples.

Q2. (CILO 2)

A) What are the important functions performed by a Commodity Exchange and Clearing House? Why are Commodity Exchanges becoming increasingly popular?

Or

B) A company knows that it will require 33,000 MT of wheat in three months. The hedge ratio works out to be 0.75. One contract is for 10 MT:

i. How many three month contracts of wheat futures need to be bought/sold to hedge the position? Show the formula and calculation. (5 marks)
ii. If three month futures are priced at 22,000 per MT and margin is 10%, how much margin money needs to be paid? (5 marks)

Q3. (CILO 2)

A) Explain the 3 stages which every transaction on an exchange must go through. Explain what happens to the price of a future contract and spot price on expiry and why?

Or

B) One contract of trading for Guar Seed futures is 10 MT. A trader sells 5 contract of Guar seed at Rs. 2,500 per Quintal on the futures market. A week later, Guar Seed futures trade at:

i. Rs.2,550 per Quintal. How much profit/loss has he made on his position? (5 marks)
ii. Rs. 2,400 per Quintal. How much profit/loss has he made on his position? (5 marks)

Section B (CILO 3) **Case-Study (20 marks)**

- In May a dealer buys 3 kg silver at Spot=Rs 18,000 per kg by borrowing Rs 54,000 @ 10% p.a. for 2 months (simple interest).
- Simultaneously he sells silver July futures of 3 kg @ Rs 18,500 per kg.
- He takes possession of the silver for 2 months.
- On the expiry date in July when spot & futures converge, he gives delivery of the silver.

Answer the following:

a) What is the arbitrage gain/loss? (8 marks)
b) What do you call this arbitrage strategy? (2 marks)
c) When is a cash and carry arbitrage strategy profitable and why? (5 marks)
d) When is a reverse cash and carry arbitrage strategy profitable and why? (5 marks)

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