

Questions for derivatives assignment

[Business](#)



Speculation Speculation is about taking up the business risk in the hope of achieving short term gain Speculation essentially involves buying and selling activities with the expectation of making a profit from price fluctuations. This can be explained with an egg if a person buys a stock for its dividend he may termed as an investor . If he buys with the anticipation off price rise in the near future and the how selling it at a gain . He would be termed a speculator 3- Attributes of investment Two attributes of investments speculation

Investment period short gambling Time very short Risk long less risk which is not able to Judge high risk 4-Financial and economic meaning of investment In an economic sense, an investment is the purchase of goods that are not consumed today but are used in the future to create wealth. In finance, an investment is a monetary asset purchased with the idea that the asset will provide income in the future or appreciate and be sold at a higher price. 5- Sweat equity share It is new equity instrument It cannot form the new class of equity share

Shares issued at discount to employees and directors Issued for other than cash for providing technical know more 6- Define right share Shares offered to existing share holders at a price by the company are called right shares They are offered to share holders as a matter of legal right This pre- emotive right can be forfeited by the shareholders through a special resolution The share holders can renounce right shares in favor of his nominee A deep discount bonds is another form of zero coupon bond The bonds are sold at a rage discount on their nominal value and interest is not paid in them also they mature at par value. The difference between the maturity value and

issue price serves as an interest return, the deep discount bonds maturity period may range from three years to 90 years or more. 9 – define risk The chance that an investment's actual return will be different than expected.

Risk includes the possibility of losing some or all of the original investment.

Different versions of risk are usually measured by calculating the standard deviation of the historical returns or average returns of a specific investment.

A high standard deviation indicates a high degree of risk. A warrant is a bearer document of title to buy a specified number of equity shares at a specified price. Warrants can usually be exercised over a number of years. The life of warrants is long. Warrants are attractive to make an IPO or a private stock offering more attractive. Bonds may have a low interest rate but the warrants offered along with them help the investor enjoy the equity appreciation value. 10-

Difference b/w intrinsic value and future value Intrinsic value Future value

The actual value of a company or an asset based on an underlying perception of its true value including all aspects of the business, in terms of both tangible and intangible factors. It is ordinarily calculated by summing the future income generated by the asset, and discounting it to the present value. The value of an asset or cash at a specified date in the future that is equivalent in value to a specified sum today. Future value is determined by simple interest and compound interest. In this process the price determination is based on orders placed.