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| **Kingdom of Saudi Arabia**  **Ministry of Education**  **Saudi Electronic University** | A picture containing text, outdoor, sign  Description automatically generated | **المملكة العربية السعودية**  **وزارة التعليم**  **الجامعة السعودية الإلكترونية** |

**College of Administrative and Financial Sciences**

**Assignment-3**

**FIN-405-Financial Derivatives**

**Due Date: 13/11/2022@ 23:59**

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| Course Name: **Financial Derivatives** | Student’s Name: |
| Course Code: **FIN-405** | Student’s ID Number: |
| Semester: **First** | CRN: |
| Academic Year:**2022-23-1st** | |
|  | |

**For Instructor’s Use only**

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| --- | --- |
| Instructor’s Name: | |
| Students’ Grade:  Marks Obtained/**Out of 10** | Level of Marks: High/Middle/Low |

**General Instructions – PLEASE READ THEM CAREFULLY**

* The Assignment must be submitted on Blackboard (**WORD format only**) via allocated folder.
* Assignments submitted through email will not be accepted.
* Students are advised to make their work clear and well presented, marks may be reduced for poor presentation. This includes filling your information on the cover page.
* Students must mention question number clearly in their answer.
* Late submission will NOT be accepted.
* Avoid plagiarism, the work should be in your own words, copying from students or other resources without proper referencing will result in ZERO marks. No exceptions.
* All answered must be typed using **Times New Roman (size 12, double-spaced)** font. No pictures containing text will be accepted and will be considered plagiarism).
* Submissions without this cover page will NOT be accepted.

**Assignment 3**

**Submission Date by students: 13 Nov 2022-11:59 PM(sunday)**

**Place of Submission: Students Grade Centre via blackboard.**

**Marks: 10 Marks**

Q1. Assume that there is a forward market for a commodity. The forward price of the commodity is $50. The contract expires in one year. The risk-free rate is 10 percent. Now, six months later, the spot price is $60. **What is the forward contract worth(Value) at this time?**  **(Marks-3)**

Q2. What factors must one consider when deciding on the appropriate underlying asset for a hedge? **(Marks-2)**

Q3. Consider a **$40 million notional principal** **interest rate swap** with a **fixed rate of 7.5 percent,** paid quarterly on the basis of 90 days in the quarter and 360 days in the year. The first **floating payment(LIBOR rate) is set at 7.9 percent**. **Calculate the first net payment and identify which party, the party paying fixed or the party paying floating, pays.** **(Marks-3)**

Q4. Discuss the Interest rate swaption/Swaption and its types? **(Marks-2)**