

SEC 3.2

BMA-S502 Mathematical Finance

Credit : 2

L T P

Time: 3 hrs

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NOTE: The question paper shall consist of three sections (Sec.-A, Sec.-B and Sec.-C). Sec.-A shall contain 10 objective type questions of one mark each and student shall be required to attempt all questions. Sec.-B shall contain 10 short answer type questions of four marks each and student shall be required to attempt any five questions. Sec.-C shall contain 8 descriptive type questions of ten marks each and student shall be required to attempt any four questions. Questions shall be uniformly distributed from the entire syllabus. The previous year paper/model paper can be used as a guideline and the following syllabus should be strictly followed while setting the question paper.

Basic principles: Comparison, arbitrage and risk aversion, Interest (simple and compound, discrete and continuous), time value of money, inflation, net present value, internal rate of return (calculation by bisection and Newton-Raphson methods), comparison of NPV and IRR. Bonds, bond prices and yields. Floating-rate bonds, immunization.

Asset return, short selling, portfolio return, (brief introduction to expectation, variance, covariance and correlation), random returns, portfolio mean return and variance, diversification, portfolio diagram, feasible set, Markowitz model (review of Lagrange multipliers for 1 and 2 constraints).

Books Recommended:

1. David G. Luenberger, *Investment Science*, Oxford University Press, Delhi, 1998.
2. John C. Hull, *Options, Futures and Other Derivatives*, 6th Ed., Prentice-Hall India, Indian reprint, 2006.
3. Sheldon Ross, *An Elementary Introduction to Mathematical Finance*, 2nd Ed., Cambridge University Press, USA, 2003.