V Cap, Floor & Collar

1 Cap • Borrower, afraid of interest rate rising, Buy Cap [Call option], strike price "LIBOR"

2 Floor • Investor, afraid of interest rate falling, Buy Floor [put option], strike price "LIBOR"

3 Collar Borrower → Buy Cap at Higher rate & paid premium. In order to recover premium, Sell Floor at Lower rate.

If premium paid in lumpsum, periodically premium amount [Amortisation of premium] is calculated as under

$$= \frac{\text{Lumpsum premium}}{\text{PVAF}}$$

VI T. Bond Future [Cheapest to delivery]

If interest rate rising then bond price falling, hence we should contract to sell Bond at contracted price. We can buy such bond from market at market price. If Deliverable bond is not available then contracted future price adjusted with conversion factor.

We have to Select Any Bond from given Bonds & deliver to Stock Exchange having highest Gain.

Cash Inflows = Future price × Conversion factor = xxx

Cash out flows = Quoted price of Bond = xxx

Gain/(Loss) = xxx