Financial Derivatives
Code- RMBFM05

Section-1

(a)

Explain the Term of future markets?

Future markets:-
Future market or future exchange is a central financial exchange where people can trade standarised future contract, that is a contract to buy specific quantities of a commodity or financial instrument at a specified price with delivery set at a specified time in future.

A future contract is an agreement b/w two parties to buy or sell an asset at a certain time in the future at the certain price.

Future contract are special types of forward contract in the sence that the former are standarised exchange trade contract.

Trader - expect increase in gold price for current future price Rs. 9000 per 10 gms:
The market lot is 1kg and he buy one lot of future gold (9000 x 100) = 900,000

Function of future market :-

① **Discovery of prices :-** Due to its highly competitive nature, the future mrkt has become an imp economic tools to determine price based on today & tommorow estimated amt of supply and demand.

future mrkt depend on the continous flow of information

② **Reduction of Risk :-** future market are also a people to reduce risk when marking purchases. Risk are reduce because the price is preset, therefore participant know how much they will need to buy or sell.

③ **High Leverage :-** The primary attraction of course is the potential for large profit in a short period of time.

The reson that future trading can be so profitable is the high leverage.

The Investor can trade a much larger amount of the security than if he he bought it outright, So if he has predication the market movement correctly, his profit will be increase (10% deposit)

(4) Profit in bull and bear Market → In future market it is as easy to sell as it to buy.

By choosing correct investor can make money whether price go up or down.

Therefore, trading in the future market offers the opportunity to profit for any potential economic.