

## **A STUDY ON FUTURE & OPTION MARKET IN INDIA AND ITS AWARENESS LEVEL**

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### **ABSTRACT**

The derivatives market (future & option market) is the financial market for derivatives, financial instruments like futures contracts or options, which are derived from other forms of assets. Derivatives Market has an important role to play in the economic development of a country. Today, the financial derivatives have become increasingly popular and most commonly used in the world of finance. This has grown with a phenomenal speed all over the world that now it is called as the derivatives revolution. In India, the emergence and growth of derivatives market is relatively a recent phenomenon. Since its inception in June 2000, derivatives market has exhibited exponential growth both in terms of volume and number of contract traded. The objective of this study is to know whether the investors who belong to south gujarat region really aware about Indian future and option market i.e. derivative market. The study reveals that they are aware about various derivative instruments but still they are hesitate to invest in them due to the lack of in depth knowledge and difficult to understand.

**Keywords:** Future & Option, Derivative, Risk, Investments, Volatility

### **1. DERIVATIVE**

A derivative is a financial convention that derives its value from an underlying asset. The buyer agrees to buy the asset on a particular date at a specific price. While derivatives can be used to help manage risk involved in investment they also have risk of their own. However the risks involved in derivatives trading are neither new nor unique they are the same in of risks associated with traditional bond or equity instruments.

**Volatility:** The underlying protection that is approved upon in contract frequently changes its value. The high volatility may result in prejudiced profits in the favor of individual party of the contract. There has been clarification where one party ended up losing the entire value overnight because of the ever unpredictable prices.

**Market risk:** This is frequent in every type of investment. Factor such as Economic environment, financial and present account deficit, international markets have a huge collision on prices of every trading mechanism. Therefore, it is recommended to conduct a thorough research and discuss with experts previous to investing in derivatives.

**Time limit:** Derivative contracts come with a specific time limit. The contracts conclude as quickly as the time duration is over. This may consequence in losses if the investments do not work out in the particular time frame.

#### **Counterparty risks:**

It is one of the major risks associated with derivative trading. It occurs when moreover of the parties in contract backs off or goes destroy. There is a high prospect of

counterparty risk in over the counter trade than in swap trading as over the counter trades are much less in harmony.

## 2. CATEGORIES OF DERIVATIVES

**Commodity derivatives:** Commodity derivatives are investment tools that allow investors to profit from certain commodities without possessing them. The buyer of a derivatives contract buys the right to exchange a commodity for a certain price at a future date. The buyer may be buying or selling the commodity.

**Financial derivative:** A financial derivative is a contract between two or more parties whose value is based on an agreed-upon underlying financial asset (like a security) or set of assets (like an index). Common underlying instruments include bonds, commodities, currencies, interest rates, market indexes, and stocks

**Forwards:** Forwards are over the counter (OTC) derivatives that enable buying or selling and underlying on a future date, at an agreed upon price. The terms of a forward contract are as agreed between counterparties.

**Futures:** Futures are exchange traded forwards. A future is a contract for buying or selling a specific underlying, on a future date, at a price specified today, and entered through a formal mechanism on an exchange. The terms of the contract are specified by the exchange.

**Options:** An option is a contract that gives the right, but not an obligation, to buy or sell the underlying on or before a stated date and at a stated price. While buyer of option pays the premium and buys the right, writer/seller of option receives the premium with obligation to sell/buy the underlying asset, if the buyer exercises his right.



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**Swaps:** A swap is an agreement made between two parties to exchange cash flow in the future according to a prearranged formula. Swaps are, broadly speaking, series of forward contracts. Swaps help market participants manage risk associated with volatile interest rates, currency exchange rates and commodity prices.

**Exotic Derivatives:** Exotic Derivatives usually refers to more complex, unusual and specific derivative contracts that depend on the value of some underlying asset or defined set of assets.

## 3. REVIEW OF LITERATURE

Pasha studied retail investors perception on financial derivatives in India. It is found that 55 percent of the small investors are of the opinion that derivatives are new, complex, and high-tech product, 38 percent of the respondents, who are familiar with derivatives, said derivatives are not new, complex, and high-tech product. And remaining 7 percent of the investors could not answer the question. This show that a large number of investors are not recognizable with derivatives. The study also establish that 62 percent of the small investors are of the view that derivatives are purely speculative and highly leveraged instruments. Narang Sunita has discussed the implications of financial derivatives on the Indian capital market and conducted a survey among members and sub members of NSE and BSE to understand their perception towards derivatives trading. She found that lack of awareness, high transaction costs, malpractices adopted by illegal financial advisor and shorter trade timings are few implements to derivative trading in India.

## 4. RESEARCH OBJECTIVES

- To study the derivative market (future & option market) in India.

- To study the awareness about derivative market with respect to south Gujarat region.
- To know whether investors face any difficulty in investing in Derivative market.

arrange for questionnaire method the subject of the study.

- **SAMPLING METHOD:** Convenience techniques of sampling is used to gather the data from the Respondents.

## 5. DATA COLLECTION

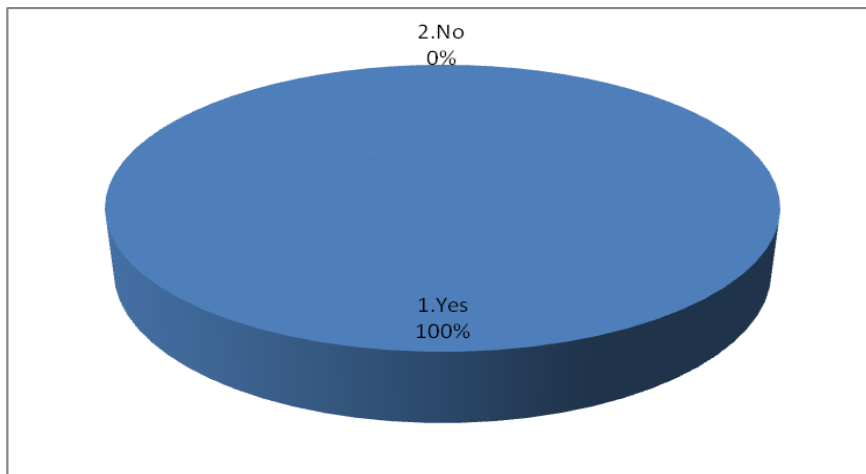
This study research is based on primary data and secondary data. This primary data are gathered from investors in stock market. Secondary data are collected from journals, articles and websites. This primary data are

- **SAMPLE UNIT:** Retail investors south Gujarat region who invest in stock market.
- **SAMPLE SIZE:** 200

## 6. ANALYSIS

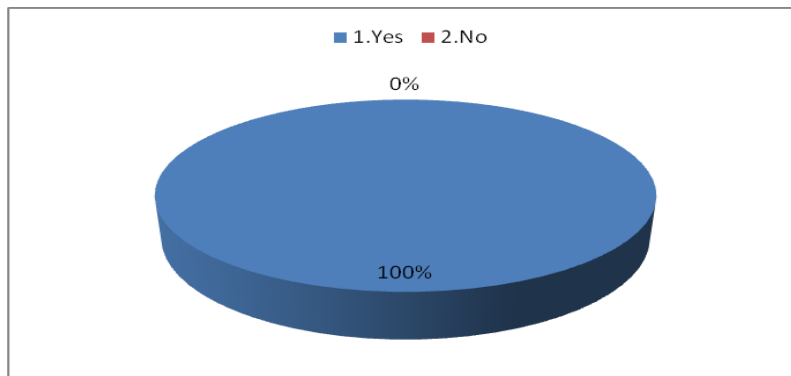
### Q-1. Do you invest in stock market?

	Frequency	Percentage (%)
1.Yes	200	100
2.No	0	0



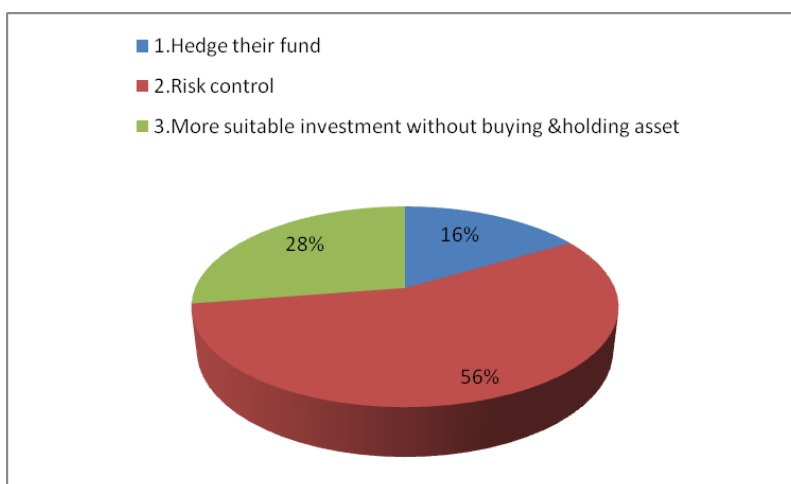
### Q-2. Are you aware about the derivative market?

	Frequency	Percentage (%)
1.Yes	200	100
2.No	0	0



**Q-3.What is the purpose of investing in derivative market?**

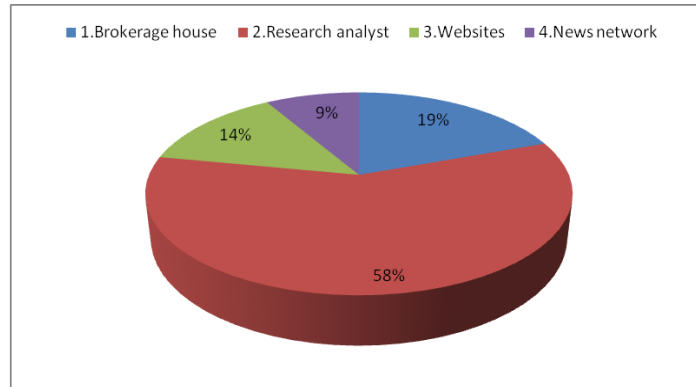
	Frequency	Percentage (%)
1.Hedge their fund	33	16
2.Risk control	112	56
3.More suitable investment without buying &holding asset	55	28



**Q-4.From where you prefer to take advice before investing in derivative market?**

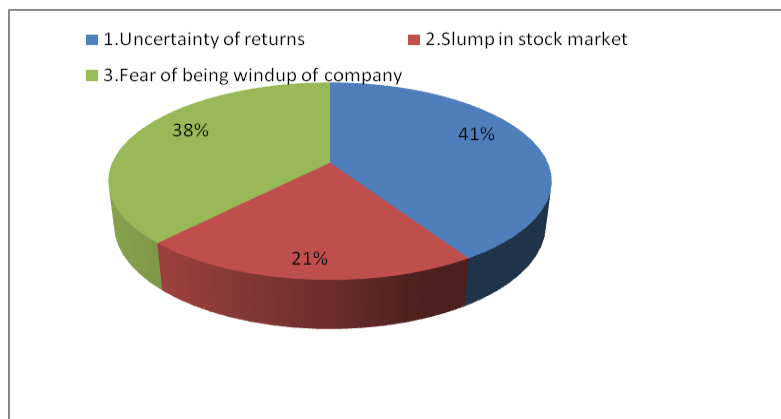
	Frequency	Percentage (%)
1.Brokerage house	39	19

2.Research analyst	117	58
3.Websites	27	14
4.News network	17	9



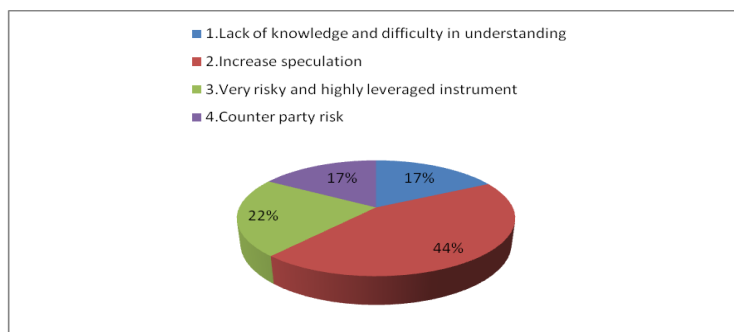
**Q-5.What kind of risk do you perceive while investing in the stock market?**

	Frequency	Percentage (%)
1.Uncertainty of returns	82	41
2.Slump in stock market	42	21
3.Fear of being windup of company	76	38



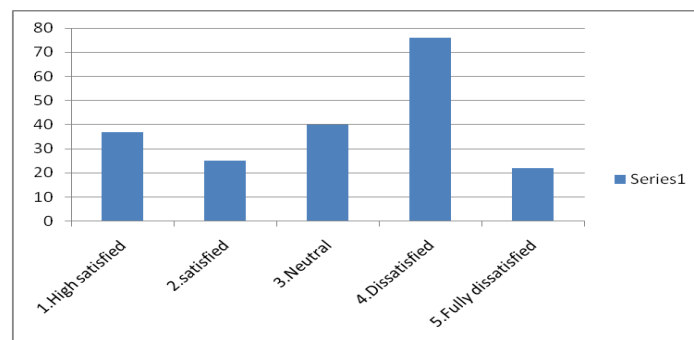
**Q-6.Why people do not invest in derivative market?**

	Frequency	Percentage (%)
1.Lack of knowledge and difficulty in understanding	35	17
2.Increase speculation	88	44
3.Very risky and highly leveraged instrument	44	22
4.Counter party risk	33	17



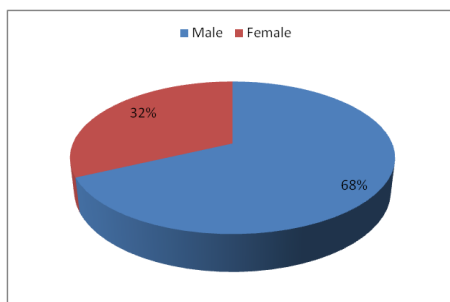
**Q-7.How much do you satisfied with investing in derivatives?**

	Frequency
1.High satisfied	37
2.satisfied	25
3.Neutral	40
4.Dissatisfied	76
5.Fully dissatisfied	22



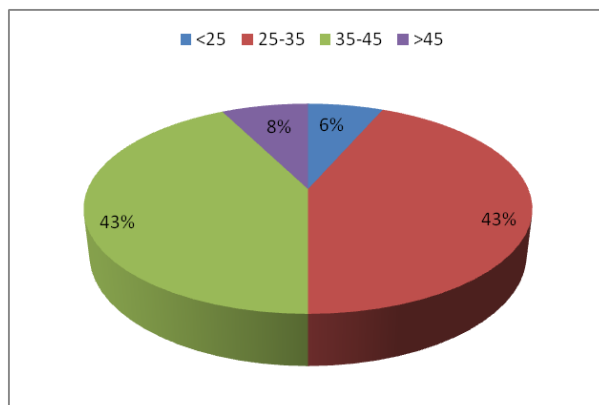
**Gender:**

	Frequency	Percentage (%)
Male	136	68
Female	64	32



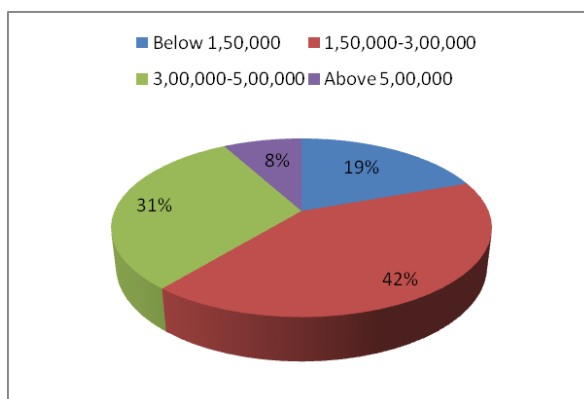
**Age:**

	Frequency	Percentage (%)
<25	13	6
25-35	87	43
35-45	85	43
>45	15	8



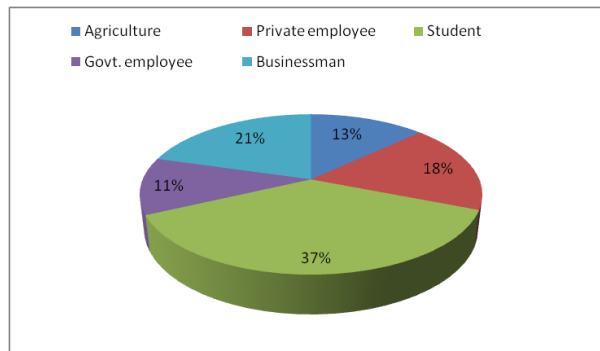
**Annual Income:**

	Frequency	Percentage (%)
Below 1,50,000	39	19
1,50,000-3,00,000	83	42
3,00,000-5,00,000	62	31
Above 5,00,000	16	8



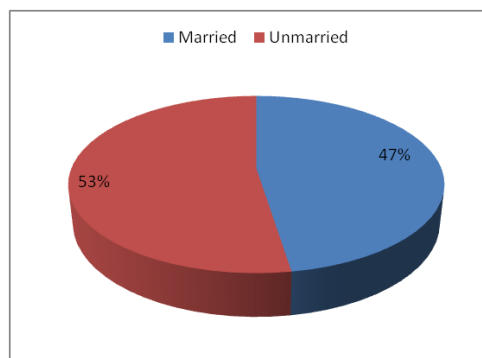
**Occupation:**

	Frequency	Percentage (%)
Agriculture	26	13
Private employee	36	18
Student	74	37
Govt. employee	23	11
Businessman	41	21



**Marital status:**

	Frequency	Percentage (%)
Married	95	47
Unmarried	105	53



**7. RESULTS AND DISCUSSION**

- All of respondents are aware of the derivative market.
- 28% respondents are investing in derivative market for the purpose of more suitable investment without buying & holding asset.
- 58% respondent to prefer research analyst to take advice before investing in derivative market.

- 41% of risk to perceive uncertainty of returns while investing in the stock market.
- Investors are not investing in derivative market because 17% investors says that lack of knowledge and difficulty in understanding.

**8. CONCLUSION**

The attitude of investor's is changing towards derivative market in India for the last some years. It can be concluded that the major investors are investing in stock market. The investors are aware about derivative market

but investing in derivative market is risky because mostly investors do not have complete knowledge about that. Investors are participating in derivative market to following the future on individual stock. All respondents are saying yes to aware about the various derivative instruments. Investors are not investing in derivative market due to lack of knowledge and difficulty in understanding. Now a day the investors know about the derivative market so they are aware. As derivative market offers more return, with the hedging of interest rate risk and exchange rate risk with maximum profits and minimum loss. It has been noticed that there has been awareness about derivatives trading amongst the investors in India since last few years.

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