Chapter 3

Research Methodology
Chapter 3

Research Methodology

“It has been said in the past that derivatives are kind of a side show, where the main event takes place in the money and capital markets. One could attend the side show without taking part in the main event and vice-versa. With respect to derivative and money/capital markets, that is simply not true today. Derivatives are so widely used that even if one has no intention of using them, it is important to understand how they are used by others and what effects, positive and negative; they could have on money and capital markets.” …..Peter L. Bernstein

The derivative market in India holds a great importance in the economy and therefore it becomes imperative. The main theme of this thesis is the growth of currency future market, currency option market in India and how it is helpful to import export business, banks and multinational companies.

3.1 Objectives

- Review of history, growth, development & analyze the basic concept of Currency Derivative in India.
- To study exchange traded & analyze different currency derivative products
- To examine how the currency futures are cured as risk management tool & how different currency future contracts from currency forward contracts.
- To study and analyze how currency futures are quoted, valued and used for Investment, Hedge, Arbitrage and Speculate purposes & the factors affecting on exchange rate of currencies.
- To know the currency trading strategy for importers and exporters.
- To know the various strategies of currency derivative trading.
3.2 Hypothesis

- Currencies affect from government policies, natural calamities and other factors.
- Risk and uncertainty reduced by currency future for many entities like – exporters, importers, tourist, students studying in abroad, govt. institutions.
- Interest rate parity and pricing of currency Derivative.
- Speculation, Hedging, Arbitrage strategy on Currency Derivative.
- Currency Future contract is regulated and more efficient working as compared to forward contract.
- Compare currency market with equity and commodity market.

3.3 Sample

There are two major alternatives on how to select an appropriate sample: random (probability) and non-random (non-probability) sampling. The random sampling gives every part of population an equal probability of selection. The non-probability sampling includes a selection of a sample on other basis than the random sampling, such as convenience and personal judgment.

The random sampling technique was selected in this thesis so that the benefit of all members of the population stands the same chance of being selected. Questionnaires were sent to 250 correspondents and 200 correspondents responded.

3.4 Data Collection (Tools and methods)

Primary data is the type of data which is collected for a specific purpose by the researcher and the information is gathered for instance through interviews, questionnaires and observations. The primary data collected here is through questionnaire since for data collection there are different ways. A few examples are: interviews, observations, literature study, etc. Researcher conducted a few rounds of interviews and also through the previous experience of two papers and gathered facts we framed the questionnaire.
The questionnaire was kept simple for easy understanding and extracting the desired results. Features of the Questionnaire -

- Easy to understand.
- Multiple choice in answers for appropriate and easy selections.
- Sample included random sampling method so that a section of population using personnel who is either investor or trader or any human being who is directly or indirectly attached with currency derivative market could be represented.

<table>
<thead>
<tr>
<th>Sr No</th>
<th>No of Questionaire Distributed</th>
<th>No of Questionaire Received</th>
<th>Response Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>250</td>
<td>200</td>
<td>80%</td>
</tr>
</tbody>
</table>

### 3.5 Place of Work

As far as the geographical location is concerned the sample mainly consists of Jalgaon district. Moreover the distributional approach of the sample with consideration of factors such as gender, age, income group etc. have discussed in the next section. The major contribution in the sample consists the personnel who is directly /indirectly linked up with leading financial institutions such as

- Religare Securities Limited
- Geogit Financial Services
- India Infoline Limited
- ShareKhan Pvt. Ltd. etc.

<table>
<thead>
<tr>
<th>Brokers</th>
<th>Frequency</th>
<th>% Freq.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Religare Securities Limited</td>
<td>61</td>
<td>31%</td>
</tr>
<tr>
<td>Geogit Financial Services</td>
<td>54</td>
<td>27%</td>
</tr>
<tr>
<td>India Infoline Limited</td>
<td>45</td>
<td>23%</td>
</tr>
<tr>
<td>ShareKhan</td>
<td>31</td>
<td>16%</td>
</tr>
<tr>
<td>Others</td>
<td>9</td>
<td>5%</td>
</tr>
<tr>
<td>Grand Total</td>
<td>200</td>
<td>100%</td>
</tr>
</tbody>
</table>
3.6 Data Analysis Tools

Simple statistical analysis including Measures of central tendencies, Measures of dispersion, comparative studies, correlation and regression analysis, testing of hypothesis will be undertaken for each of the factor whichever raised during the study. Additional statistical tools could be used as and when requirement of the study.