Answer 1:

A is incorrect because exchange traded derivatives are backed by the clearinghouse.

B is incorrect because due to standardization, there is more liquidity in exchange traded derivatives, and hence lower liquidity risk, than in the over the counter derivatives.

C is correct. Since the clearinghouse itself acts as the counterparty to all the trades, there is no default risk present.

Answer 2:

A is not a wrong statement because if the price of the underlying asset goes down, the seller will benefit from selling it at a higher committed price.

B is not a wrong statement because if the price of the underlying asset goes down, the buyer will suffer a loss by buying it at a higher committed price.

C is correct because in a deliverable forward contract, the delivery of the underlying asset is made against the cash payment. However, this amount is decided in the beginning and remains constant.

Answer 3:

A is incorrect because if the price of the underlying asset increases, the buyer will receive a cash payment from the seller of the forward contract.

B is incorrect because for the deliverable forward contract, the cash amount is fixed at the initiation of the contract and it remains constant.

C is correct. Since futures are marked-to-market on daily basis, there will be a relatively very small amount of cash to settle the contract at expiry.

Answer 4:

A is incorrect because the seller (writer) of a call option never buys the underlying asset.

B is incorrect because options do not obligate the buyer (long) to buy the underlying asset. The buyer will only exercise the option if it is in-the-money.

C is correct. The price (value) of the call option is negatively related to the exercise price.

Answer 5:

A is incorrect because the long or short in the forward contract can do an offsetting forward contract to effectively cancel the former contract.

B is correct. The decline in the value of the underlying asset will result in the long buying the underlying asset at a price greater than the prevailing market price. This implicates a negative value for the long in this situation.

C is incorrect because the decline in the value of the underlying asset will give the short the right to sell at a price greater than the prevailing market price. This implicates a positive value for the short.

Answer 6:

A is incorrect because current prices are factual figures. Speculation can only happen on future prices.

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C is correct. Parties may enter into derivative contracts to increase or decrease risk.

Answer 7:

A is correct. If the value of the underlying asset increases, the long will benefit. However, a forward contract is binding and hence poses a threat to the long (in the form of credit risk) that the short may not honor the contract.

B is incorrect because the party with the positive value is exposed to the credit risk and not the party with the negative value.

C is incorrect because negative value for a position means paying cash (for cash settled forward contract). The party obligated to pay cash is not exposed to default risk.

Answer 8:

A is incorrect because the loss will be buffered to some extent by the premium of the call option.

B is correct. If the euro appreciates, the short position in the forward contract will be obligated to deliver "expensive" Euros for less expensive contract price.

C is incorrect. Even though the long position in forward contract on euro can suffer loss if the euro depreciates, the loss will be buffered by the fact that the U.S. importer will now be able to import relatively cheaper from Europe.

Answer 9:

A is correct. The statement is incorrect because the long in index futures will not be earning the dividends that an otherwise identical investor would earn by investing in index stocks directly.

B is incorrect since the short in index stocks can earn short rebate on the proceeds of short sales that an investor with short position in index forward cannot earn.

C is incorrect. The statement is correct.