Question 1:

Which of the following is the most accurate regarding exchange traded derivatives:

A. Exchange traded derivatives are standardized and are not backed by clearing house

B. Exchange traded derivatives have more liquidity risk than over the counter derivatives

C. Default risk the only risk not present in exchange traded derivatives

Question 2:

For a deliverable forward contract, decrease in price of the underlying asset is least likely to result in

A. gain to the seller

B. loss to the buyer

C. high cash payment at settlement

Question 3:

Which of the following is most likely to be the lowest number if price of the underlying asset increases?

A. Cash received by buyer of forward contract at expiry for cash settled forward contract

B. Cash received by seller of forward contract at expiry for delivery settled forward contract

C. Cash received by buyer of a future contract at expiry

Question 4:

Which of the following statements is most accurate regarding delivery settled call option?

A. Seller of call option has obligation to buy the underlying

B. Buyer of the call option has obligation to buy the underlying

C. Call option values are not positively related to exercise price

Question 5:

In a forward contract, subsequent decline in the price of underlying asset will least likely result in

A. cancellation of the contract

B. positive value for the long

C. positive value for the short

Question 6:

Parties may enter into derivative contracts to

A. decrease risk by speculating on current prices

B. increase risk by speculating on current prices

C. increase risk

Question 7:

Identify the most accurate statement for a subsequent increase in price of underlying in a 3-month forward contract:

A. Long is exposed to default risk due to negative value for short

B. Short is exposed to default risk due to positive value for long

C. Long is exposed to default risk due to negative value for long

Question 8:

A U.S. importer from Europe will be exposed to highest currency loss if she has:

A. written a call option on euro

B. short position in forward contract on euro

C. long position in forward contract on euro

Question 9:

Which of the following is least accurate

A. Long in index futures will earn same return as index investor

B. Short in index forward will not earn same rerun as short in index stocks

C. LIBOR is rate on Eurodollar deposit and is published by British Banker's Association.