

Question #1 of 62

James Anthony has a short position in a put option with a strike price of \$94. If the stock price is below \$94 at expiration, what will happen to Anthony's short position in the option?

- A) He will have the option exercised against him at \$94 by the person who is long the put option.
 - B) The person who is long the put option will not exercise the put option.
 - C) He will let the option expire.
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Question #2 of 62

On the expiration date of a European put option, if the spot price of the underlying asset is less than the exercise price, the value of the option is:

- A) zero.
 - B) positive.
 - C) negative.
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Question #3 of 62

During its life the value of a long position in a forward or futures contract:

- A) is opposite to the value of the short position.
 - B) is equal to the value of the short position.
 - C) can differ in size from the value of the short position.
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Question #4 of 62

At expiration, the value of a European call option is:

- A) equal to the asset price minus the present value of the exercise price.
 - B) less than that of an otherwise identical American call option.
 - C) equal to its intrinsic value.
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Question #5 of 62

At expiration, the value of a call option is the greater of zero or the:

- A) underlying asset price minus the exercise value.

- B) underlying asset price minus the exercise price.
 - C) exercise price minus the exercise value.
-

Question #6 of 62

Which of the following *most accurately* states an example of replication in derivatives pricing?

- A) Risky asset + risk-free asset = (– derivative position).
 - B) Derivative position – risk-free asset = risky asset.
 - C) Risky asset + derivative = risk-free asset.
-

Question #7 of 62

A call option that is in the money:

- A) has an exercise price less than the market price of the asset.
 - B) has an exercise price greater than the market price of the asset.
 - C) has a value greater than its purchase price.
-

Question #8 of 62

Bidco Corporation common stock has a market value of \$30.00. Which statement about put and call options available on Bidco common is *most* accurate?

- A) A put with a strike price of \$35.00 is in-the-money.
 - B) A put with a strike price of \$20.00 has intrinsic value.
 - C) A call with a strike price of \$25.00 is at-the-money.
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Question #9 of 62

If futures prices are positively correlated with interest rates, futures prices will be:

- A) unaffected relative to forward prices.
 - B) greater than forward prices.
 - C) less than forward prices.
-

Question #10 of 62

Consider a European call option and put option that have the same exercise price, and a forward contract to buy the same underlying asset as the two options. An investor buys a risk-free bond that will pay, on the expiration date of the options and the forward contract, the difference between the exercise price and the forward price. According to the put-call-forward parity relationship, this bond can be replicated by:

- A) writing the call option and writing the put option.
 - B) buying the call option and writing the put option.
 - C) writing the call option and buying the put option.
-

Question #11 of 62

Using put-call parity, it can be shown that a synthetic European put can be created by a portfolio that is:

- A) short the stock, long the call, and long a pure discount bond that pays the exercise price at option expiration.
 - B) long the stock, short the call, and short a pure discount bond that pays the exercise price at option expiration.
 - C) short the stock, long the call, and short a pure discount bond that pays the exercise price at option expiration.
-

Question #12 of 62

The underlying instrument in a forward rate agreement is:

- A) a fixed-income security.
 - B) an asset.
 - C) an interest rate.
-

Question #13 of 62

For an underlying asset that has no holding costs or benefits, the value of a forward contract to the long during the life of the contract is the:

- A) spot price minus the present value of the forward price.
 - B) difference between the spot price and the forward price.
 - C) present value of the difference between the spot price and the forward price.
-

Question #14 of 62

Which of the following instruments is a component of the put-call-forward parity relationship?

- A) The present value of the forward price of the underlying asset.
 - B) The future value of the forward price of the underlying asset.
 - C) The spot price of the underlying asset.
-

Question #15 of 62

Which of the following statements about long positions in put and call options is *most* accurate? Profits from a long call:

- A) are positively correlated with the stock price and the profits from a long put are negatively correlated with the stock price.
 - B) are negatively correlated with the stock price and the profits from a long put are positively correlated with the stock price.
 - C) and a long put are positively correlated with the stock price.
-

Question #16 of 62

It is possible to profit from arbitrage when there are no costs or benefits to holding the underlying asset and the forward contract price is:

- A) less than the present value of the spot price.
 - B) less than the future value of the spot price.
 - C) greater than the present value of the spot price.
-

Question #17 of 62

As a forward contract approaches its expiration date, its value:

- A) increases to the forward contract price.
 - B) approaches zero.
 - C) depends on the price of the underlying asset.
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Question #18 of 62

If the price of a forward contract is greater than the price of an identical futures contract, the most likely explanation is that:

- A) the forward contract is more liquid.

- B) the futures contract is more difficult to exit.
 - C) the futures contract requires daily settlement.
-

Question #19 of 62

Greater volatility in the price of the underlying asset will have what effect on the value of a call option and the value of a put option?

<u>Value of a call option</u>	<u>Value of a put option</u>
A) Increase	Decrease
B) Increase	Increase
C) Decrease	Increase

Question #20 of 62

A forward rate agreement (FRA):

- A) can be used to hedge the interest rate exposure of a floating-rate loan.
 - B) is settled by making a loan at the contract rate.
 - C) is risk-free when based on the Treasury bill rate.
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Question #21 of 62

A fiduciary call is a portfolio that is made up of:

- A) a call option and a share of stock.
 - B) a call that is synthetically created from other instruments.
 - C) a call option and a bond that pays the exercise price of the call at option expiration.
-

Question #22 of 62

Which of the following statements about moneyness is *most* accurate? When the stock price is:

- A) above the strike price, a put option is out-of-the-money.
- B) above the strike price, a put option is in-the-money.
- C) below the strike price, a call option is in-the-money.

Question #23 of 62

Which of the following is typically equal to zero at the initiation of an interest rate swap contract?

- A) Neither its value nor its price.
 - B) Its price.
 - C) Its value.
-

Question #24 of 62

Other things equal, the no-arbitrage forward price of an asset will be higher if the asset has:

- A) convenience yield.
 - B) storage costs.
 - C) dividend payments.
-

Question #25 of 62

Compared to European put options on an asset, otherwise identical American put options on the asset are *most likely* to be more valuable if:

- A) the asset value is significantly lower than the exercise price.
 - B) the asset pays dividends during the life of the option.
 - C) the options are out-of-the-money.
-

Question #26 of 62

Given the following data regarding Printer, Inc.'s call options, which of the following statements is *least* accurate?

Stock Price	Expiration	Strike	Option Prem. (Last)
50	June	45	6
50	June	50	2
50	June	55	0.50

- A) The intrinsic value of the June \$45.00 call is \$5.00.
 - B) The June \$55.00 call is an in-the-money option.
 - C) The June \$45.00 call is an in-the-money option.
-

Question #27 of 62

Which of the following will increase the value of a call option?

- A) A dividend on the underlying asset.
 - B) An increase in the exercise price.
 - C) An increase in volatility.
-

Question #28 of 62

Which of the following is a nonmonetary benefit of holding an asset?

- A) Storage and insurance.
 - B) Dividends.
 - C) Convenience yield.
-

Question #29 of 62

The relationship referred to as put-call-forward parity states that at time = 0, if there is no arbitrage opportunity, the value of a call at X on an asset that has no holding costs or benefits plus the present value of X is equal to:

- A) the value of a put option at X plus the present value of the forward contract price.
 - B) the asset price minus the value of a put option at X.
 - C) the forward contract price plus the value of a put option at X.
-

Question #30 of 62

For an underlying asset that has no holding costs or benefits, the no-arbitrage forward price at initiation of a forward contract is:

- A) the future value of the spot price.
 - B) equal to the spot price.
 - C) zero.
-

Question #31 of 62

The price of a pay-fixed receive-floating interest rate swap is:

- A) determined by expected future short-term rates.

- B)** negative when floating rates are highly volatile.
 - C)** zero when floating rates and fixed rates are equal.
-

Question #32 of 62

A call option's intrinsic value:

- A)** increases as the stock price increases above the strike price, while a put option's intrinsic value increases as the stock price decreases below the strike price.
 - B)** increases as the stock price increases above the strike price, while a put option's intrinsic value decreases as the stock price decreases below the strike price.
 - C)** decreases as the stock price increases above the strike price, while a put option's intrinsic value increases as the stock price decreases below the strike price.
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Question #33 of 62

For a series of forward contracts to replicate a swap contract, the forward contracts must have:

- A)** values at swap initiation that are equal to zero.
 - B)** values at swap expiration that sum to zero.
 - C)** values at swap initiation that sum to zero.
-

Question #34 of 62

An increase in the riskless rate of interest, other things equal, will:

- A)** increase call option values and decrease put option values.
 - B)** decrease call option values and decrease put option values.
 - C)** decrease call option values and increase put option values.
-

Question #35 of 62

A synthetic European put option includes a short position in:

- A)** a European call option.
 - B)** the underlying asset.
 - C)** a risk-free bond.
-

Question #36 of 62

An investor would exercise a put option when the:

- A) price of the stock is above the strike price.
 - B) price of the stock is below the strike price.
 - C) price of the stock is equal to the strike price.
-

Question #37 of 62

For two European put options that differ only in their time to expiration, which of the following is *most* accurate? The longer-term option:

- A) is worth at least as much as the shorter-term option.
 - B) can be worth less than the shorter-term option.
 - C) is worth more than the shorter-term option.
-

Question #38 of 62

The *most likely* use of a forward rate agreement is to:

- A) exchange a floating-rate obligation for a fixed-rate obligation.
 - B) lock in an interest rate for future borrowing or lending.
 - C) obtain the right, but not the obligation, to borrow at a certain interest rate.
-

Question #39 of 62

Using put-call parity, it can be shown that a synthetic European call can be created by a portfolio that is:

- A) long the stock, short the put, and short a pure discount bond that pays the exercise price at option expiration.
 - B) long the stock, long the put, and short a pure discount bond that pays the exercise price at option expiration.
 - C) long the stock, long the put, and long a pure discount bond that pays the exercise price at option expiration.
-

Question #40 of 62

A put option is in the money when:

- A)** the stock price is higher than the exercise price of the option.
 - B)** the stock price is lower than the exercise price of the option.
 - C)** there is no put option with a lower exercise price in the expiration series.
-

Question #41 of 62

Derivatives valuation is based on risk-neutral pricing because:

- A)** risk tolerances of long and short investors are assumed to offset.
 - B)** this method provides an intrinsic value to which investors apply a risk premium.
 - C)** the risk of a derivative is based entirely on the risk of its underlying asset.
-

Question #42 of 62

An analyst is determining the value of a put option with a one-period binomial model. Using an up-move size of 25% and a risk-free rate of 3%, the analyst calculates the following:

Down-move size = 0.80

Up-move probability = 0.51

Down-move probability = 0.49

Value after up-move = \$1.07

Value after down-move = \$5.01

Probability-weighted average = $0.51(\$1.07) + 0.49(\$5.01) = \$3.00$

The analyst should determine that the value of the put option is:

- A)** greater than \$3.00.
 - B)** less than \$3.00.
 - C)** equal to \$3.00.
-

Question #43 of 62

One of the principal characteristics of swaps is that swaps:

- A)** may be likened to a series of forward contracts.
 - B)** are highly regulated over-the-counter agreements.
 - C)** are standardized derivative instruments.
-

Question #44 of 62

An option's intrinsic value is equal to the amount the option is:

- A) in the money, and the time value is the market value minus the intrinsic value.
 - B) in the money, and the time value is the intrinsic value minus the market value.
 - C) out of the money, and the time value is the market value minus the intrinsic value.
-

Question #45 of 62

The calculation of derivatives values is based on an assumption that:

- A) arbitrage opportunities are exploited rapidly.
 - B) arbitrage opportunities do not arise in real markets.
 - C) investors are risk neutral.
-

Question #46 of 62

The value of a forward or futures contract is:

- A) specified in the contract.
 - B) typically zero at initiation.
 - C) equal to the spot price at expiration.
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Question #47 of 62

Dividends or interest paid by the asset underlying a call option:

- A) decrease the value of the option.
 - B) have no effect on the value of the option.
 - C) increase the value of the option.
-

Question #48 of 62

A European call option on a stock has an exercise price of 42. On the expiration date, the stock price is 40.

The value of the option at expiration is:

- A) zero.
- B) negative.
- C) positive.

Question #49 of 62

The intrinsic value of an option is equal to:

- A) zero or the amount that it is in the money.
 - B) the amount that it is in or out of the money.
 - C) its speculative value.
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Question #50 of 62

Bea Moran wants to establish a long derivatives position in a commodity she will need to acquire in six months. Moran observes that the six-month forward price is 45.20 and the six-month futures price is 45.10. This difference *most likely* suggests that for this commodity:

- A) futures prices are negatively correlated with interest rates.
 - B) there is an arbitrage opportunity among forward, futures, and spot prices.
 - C) long investors should prefer futures contracts to forward contracts.
-

Question #51 of 62

Compared to an American call option on a stock that does not pay a dividend, an otherwise identical European call option will have:

- A) a lower value.
 - B) the same value.
 - C) a higher value.
-

Question #52 of 62

Which of the following statements about American and European options is most accurate?

- A) There will always be some price difference between American and European options because of exchange-rate risk.
 - B) Prior to expiration, an American option may have a higher value than an equivalent European option.
 - C) European options allow for exercise on or before the option expiration date.
-

Question #53 of 62

Basil, Inc., common stock has a market value of \$47.50. A put available on Basil stock has a strike price of \$55.00 and is selling for an option premium of \$10.00. The put is:

- A) out-of-the-money by \$2.50.
 - B) in-the-money by \$10.00.
 - C) in-the-money by \$7.50.
-

Question #54 of 62

Consider a put option on Deter, Inc., with an exercise price of \$45. The current stock price of Deter is \$52. What is the intrinsic value of the put option, and is the put option at-the-money or out-of-the-money?

- | <u>Intrinsic Value</u> | <u>Moneyness</u> |
|------------------------|------------------|
| A) \$7 | At-the-money |
| B) \$7 | Out-of-the-money |
| C) \$0 | Out-of-the-money |
-

Question #55 of 62

A one-period binomial model is useful for valuing options because it:

- A) does not require an assumption about volatility.
 - B) considers the additional risk inherent in options.
 - C) can account for contingent payoffs of options.
-

Question #56 of 62

The price of a fixed-for-floating interest rate swap contract:

- A) is directly related to changes in the floating rate.
 - B) is established at contract initiation.
 - C) may vary over the life of the contract.
-

Question #57 of 62

When calculating the payoff for a stock option, if the stock price is greater than the strike price at expiration:

- A) a call option expires worthless.

- B)** the payoff to a put option is equal to the strike price.
 - C)** the payoff to a call option is the difference between the stock price and the strike price.
-

Question #58 of 62

When interest rates and futures prices for an asset are uncorrelated and forwards are less liquid than futures, it is *most likely* that the price of a forward contract is:

- A)** greater than the price of a futures contract.
 - B)** less than the price of a futures contract.
 - C)** equal to the price of a futures contract.
-

Question #59 of 62

The payoff of a call option on a stock at expiration is equal to:

- A)** the maximum of zero and the stock price minus the exercise price.
 - B)** the minimum of zero and the stock price minus the exercise price.
 - C)** the maximum of zero and the exercise price minus the stock price.
-

Question #60 of 62

A net benefit from holding the underlying asset of a forward contract will:

- A)** decrease the no-arbitrage forward price at initiation.
 - B)** increase the value of the forward contract during its life.
 - C)** decrease the value of the forward contract at expiration.
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Question #61 of 62

A synthetic European call option includes a short position in:

- A)** the underlying asset.
 - B)** a risk-free bond.
 - C)** a European put option.
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Question #62 of 62

A decrease in the riskless rate of interest, other things equal, will:

- A)** increase call option values and decrease put option values.
- B)** decrease call option values and increase put option values.
- C)** decrease call option values and decrease put option values.

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