

SS 17 Derivatives

Question #1 of 164

Question ID: 416006

Which of the following statements regarding call options is *most* accurate? The:

- A) call holder will exercise (at expiration) whenever the strike price exceeds the stock price.
 - B) breakeven point for the seller is the strike price minus the option premium.
 - C) breakeven point for the buyer is the strike price plus the option premium.
-

Question #2 of 164

Question ID: 415794

Which of the following statements about futures is *least* accurate?

- A) The futures exchange specifies the minimum price fluctuation of a futures contract.
 - B) The exchange-mandated uniformity of futures contracts reduces their liquidity.
 - C) Futures contracts have a maximum daily allowable price limit.
-

Question #3 of 164

Question ID: 416012

Al Steadman receives a premium of \$3.80 for shorting a put option with a strike price of \$64. If the stock price at expiration is \$84, Steadman's profit or loss from the options position is:

- A) \$3.80.
 - B) \$23.80.
 - C) \$16.20.
-

Question #4 of 164

Question ID: 472445

One of the principal characteristics of swaps is that swaps:

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

Question #5 of 164

Question ID: 416029

An investor buys a share of stock at \$33 and simultaneously writes a 35 call for a premium of \$3. What is the maximum gain and loss?

Maximum Gain Maximum Loss

- A) \$5 \$30
 - B) unlimited \$33
 - C) \$2 \$35
-

Question #6 of 164

Question ID: 415712

Which of the following is *most likely* an exchange-traded derivative?

- A) Bond option.
 - B) Equity index futures contract.
 - C) Currency forward contract.
-

Question #7 of 164

Question ID: 500875

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

Question #8 of 164

Question ID: 415735

Any rational quoted price for a financial instrument should:

- A) be low enough for most investors to afford.
 - B) provide an opportunity for investors to make a profit.
 - C) provide no opportunity for arbitrage.
-

Question #9 of 164

Question ID: 415926

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

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

Question #10 of 164

Question ID: 415726

Financial derivatives contribute to market completeness by allowing traders to do all of the following EXCEPT:

- A) narrow the amount of trading opportunities to a more manageable range.
 - B) engage in high risk speculation.
 - C) increase market efficiency through the use of arbitrage.
-

Question #11 of 164

Question ID: 415916

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

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

Question #12 of 164

Question ID: 415744

Default risk in a forward contract:

- A) is the risk to either party that the other party will not fulfill their contractual obligation.
 - B) only applies to the short, who must make the cash payment at settlement.
 - C) only applies to the long, and is the probability that the short can not acquire the asset for delivery.
-

Question #13 of 164

Question ID: 415891

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

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

Question #14 of 164

Question ID: 416014

A stock is trading at \$18 per share. An investor believes that the stock will move either up or down. He buys a call option on the stock with an exercise price of \$20. He also buys two put options on the same stock each with an exercise price of \$25. The call option costs \$2 and the put options cost \$9 each. The stock falls to \$17 per share at the expiration date and the investor closes his entire position. The investor's net gain or loss is:

- A) \$4 gain.
 - B) \$4 loss.
 - C) \$3 loss.
-

Question #15 of 164

Question ID: 492031

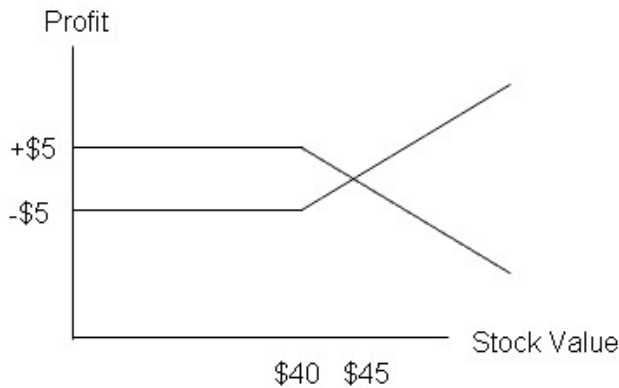
If futures prices are positively correlated with interest rates, futures prices will be:

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

Question #16 of 164

Question ID: 434441

Given the profit and loss diagram of two options at expiration shown below which of the following statements is *most* accurate?



- A) Between a stock price of \$40 and \$45 the long call's profit is between \$0 and \$5.
- B) The maximum profit to the short put is \$5.
- C) The stock price would have to increase above \$45 before the seller of the call starts losing money.

Question #17 of 164

Question ID: 415729

All of the following are benefits of derivatives markets EXCEPT:

- A) derivatives markets help keep interest rates down.
- B) derivatives allow the shifting of risk to those who can most efficiently bear it.
- C) transactions costs are usually smaller in derivatives markets, than for similar trades in the underlying asset.

Question #18 of 164

Question ID: 415859

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 #19 of 164

Question ID: 496435

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

- A) exchange a floating-rate obligation for a fixed-rate obligation.

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

Question #20 of 164

Question ID: 415719

Which of the following statements regarding a forward commitment is NOT correct? A forward commitment:

- A) is not legally binding.
 - B) can involve a stock index.
 - C) is a contractual promise.
-

Question #21 of 164

Question ID: 416021

In October, James Knight owned stock in Valerio, Inc., that was valued at \$45 per share. At that time, Knight sold a call option on Valerio with an exercise price of \$60 for \$1.45. In December, at expiration, the stock is trading at \$32. What is Knight's profit (or loss) from his covered call strategy? Knight:

- A) gained \$11.55.
 - B) gained \$1.45.
 - C) lost \$11.55.
-

Question #22 of 164

Question ID: 415865

Which of the following statements about uncovered call options is *least* accurate?

- A) The loss potential to the writer is unlimited.
 - B) The profit potential to the holder is unlimited.
 - C) The most the writer can make is the premium plus the difference between the exercise price (X) and the stock price (S).
-

Question #23 of 164

Question ID: 500874

Derivatives valuation is based on risk-neutral pricing because:

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

Question #24 of 164

Question ID: 416017

Jasper Quartermaine is interested in using the options market to create "insurance" against a severe drop in the value of a stock portfolio that he owns. How could he *best* accomplish this goal and what is this type of strategy called?

Type of option Strategy

- A) buy put options protective put
 - B) write call options protective put
 - C) write call options covered call
-

Question #25 of 164

Question ID: 472447

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

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

Question #26 of 164

Question ID: 683892

A futures investor receives a margin call. If the investor wishes to maintain her futures position, she must make a deposit that restores her account to the:

- A) daily margin.
 - B) initial margin.
 - C) maintenance margin.
-

Question #27 of 164

Question ID: 415813

A similarity of margin accounts for both equities and futures is that for both:

- A) additional payment is required if margin falls below the maintenance margin.
 - B) the value of the security is the collateral for the loan.
 - C) interest is charged on the margin loan balance.
-

Question #28 of 164

Question ID: 415724

Derivatives are often criticized by investors with limited knowledge of complex financial securities. A common criticism of derivatives is that they:

- A) can be likened to gambling.
 - B) shift risk among market participants.
 - C) increase investor transactions costs.
-

Question #29 of 164

Question ID: 456305

Which of the following statements about forward contracts is *least* accurate?

- A) Both parties to a forward contract have potential default risk.
 - B) A forward contract can be exercised at any time.
 - C) The long promises to purchase the asset.
-

Question #30 of 164

Question ID: 415773

A forward rate agreement (FRA):

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

Question #31 of 164

Question ID: 415868

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 call with a strike price of \$25.00 is at-the-money.
 - C) A put with a strike price of \$20.00 has intrinsic value.
-

Question #32 of 164

Question ID: 456309

A put option is in the money when:

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

Question #33 of 164

Question ID: 415853

A European option can be exercised by:

- A) either party, at contract expiration.
 - B) its owner, anytime during the term of the contract.
 - C) its owner, only at the expiration of the contract.
-

Question #34 of 164

Question ID: 415895

The intrinsic value of an option is equal to:

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

Question #35 of 164

Question ID: 415941

Which of the following regarding a plain vanilla interest rate swap is *most* accurate?

- A) The notional principal is swapped.
- B) Only the net interest payments are made.
- C) The notional principal is returned at the end of the swap.

Question #36 of 164

Question ID: 415722

An agreement that gives the holder the right, but not the obligation, to sell an asset at a specified price on a specific future date is a:

- A) call option.
- B) swap.
- C) put option.

Question #37 of 164

Question ID: 415927

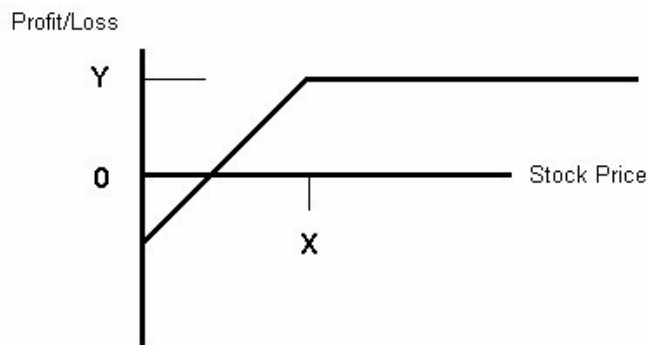
A decrease in the riskless rate of interest, other things equal, will:

- 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.

Question #38 of 164

Question ID: 434446

Given the covered call option diagram below and the following information, what are the dollar values for points X and Y? The market price of the stock is \$70, the strike price of the call is \$80, and the call premium is \$5.

Point XPoint Y

- A) \$80 \$5
 - B) \$80 \$15
 - C) \$75 \$15
-

Question #39 of 164

Question ID: 500877

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

- A) negative when floating rates are highly volatile.
 - B) zero when floating rates and fixed rates are equal.
 - C) determined by expected future short-term rates.
-

Question #40 of 164

Question ID: 415738

Which of the following is an example of an arbitrage opportunity?

- A) A put option on a share of stock has the same price as a call option on an identical share.
 - B) A portfolio of two securities that will produce a certain return that is greater than the risk-free rate of interest.
 - C) A stock with the same price as another has a higher rate of return.
-

Question #41 of 164

Question ID: 415857

An American option is:

- A) an option on a U.S. stock or bond.
 - B) exercised only at expiration.
 - C) exercisable at any time up to its expiration date.
-

Question #42 of 164

Question ID: 415746

A forward contract that must be settled by a sale of an asset by one party to the other party is termed a:

- A) take-and-pay contract.
- B) deliverable forward contract.

C) physicals-only contract.

Question #43 of 164

Question ID: 456307

The clearinghouse, in U.S. futures markets is *least likely* to:

- A) guarantee performance of futures contract obligations.
 - B) choose which assets will have futures contracts.
 - C) act as a counterparty in futures contracts.
-

Question #44 of 164

Question ID: 472436

Sally Ferguson, CFA, is a hedge fund manager. Ferguson utilizes both futures and forward contracts in the fund she manages. Ferguson makes the following statements about futures and forward contracts:

- Statement 1: A futures contract is an exchange traded instrument with standardized features.
- Statement 2: Forward contracts are marked to market on a daily basis to reduce credit risk to both counterparties.

Are Ferguson's statements accurate?

- A) Both of these statements are accurate.
 - B) Neither of these statements is accurate.
 - C) Only one of these statements is accurate.
-

Question #45 of 164

Question ID: 415912

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

Question #46 of 164

Question ID: 415817

The settlement price for a futures contract is:

- A) the price of the asset in the future for all trades made in the same day.
 - B) the price of the last trade of a futures contract at the end of the trading day.
 - C) an average of the trade prices during the 'closing period'.
-

Question #47 of 164

Question ID: 415888

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

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

Question #48 of 164

Question ID: 415855

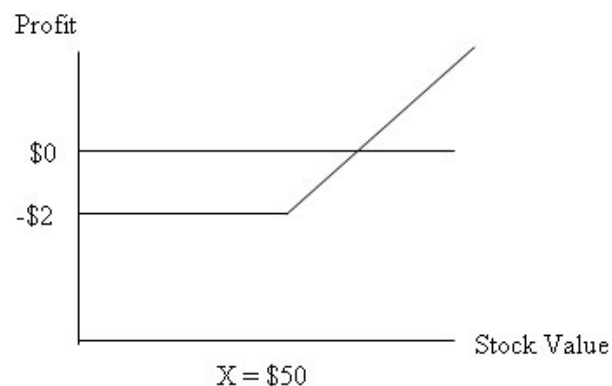
What is the primary difference between an American and a European option?

- A) American and European options are never written on the same underlying asset.
 - B) The American option can be exercised at anytime on or before its expiration date.
 - C) The European option can only be traded on overseas markets.
-

Question #49 of 164

Question ID: 434447

Given the payoff diagram shown below of an option combined with a long position in a stock, which of the following statements *most* accurately describes the profit or loss potential to the holder of the combined position?



- A) The maximum profit on the long call is unlimited.
 - B) The maximum loss on the long put is its cost.
 - C) The maximum profit on the short put is \$2.
-

Question #50 of 164

Question ID: 415995

A call option has a strike price of \$35 and the stock price is \$47 at expiration. What is the expiration day value of the call option?

- A) \$35.
 - B) \$0.
 - C) \$12.
-

Question #51 of 164

Question ID: 416010

Suppose the price of a share of Stock A is \$100. A European call option that matures one month from now has a premium of \$8, and an exercise price of \$100. Ignoring commissions and the time value of money, the holder of the call option will earn a profit if the price of the share one month from now:

- A) increases to \$106.
 - B) increases to \$110.
 - C) decreases to \$90.
-

Question #52 of 164

Question ID: 500876

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

Question #53 of 164

Question ID: 415804

Standardized futures contracts are an aid to increased market liquidity because:

- A) standardization results in less trading activity.

- B) standardization of the futures contract stabilizes the market price of the underlying commodity.
 - C) uniformity of the contract terms broadens the market for the futures by appealing to a greater number of traders.
-

Question #54 of 164

Question ID: 472440

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

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

Question #55 of 164

Question ID: 415725

MBT Corporation recently announced a 15% increase in earnings per share (EPS) over the previous period. The consensus expectation of financial analysts had been an increase in EPS of 10%. After the earnings announcement the value of MBT common stock increased each day for the next five trading days, as analysts and investors gradually reacted to the better than expected news. This gradual change in the value of the stock is an example of:

- A) efficient markets.
 - B) inefficient markets.
 - C) speculation.
-

Question #56 of 164

Question ID: 492035

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 = $0.49(\$1.07) + 0.51(\$5.01) = \$3.00$

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

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

Question #57 of 164

Question ID: 415723

A standardized and exchange-traded agreement to buy or sell a particular asset on a specific date is *best* described as a:

- A) swap.
 - B) futures contract.
 - C) forward contract.
-

Question #58 of 164

Question ID: 415902

Compared to European put options on an asset with no cash flows, an American put option:

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

Question #59 of 164

Question ID: 472446

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

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

Question #60 of 164

Question ID: 416007

An investor buys a call option that has an option premium of \$5 and a strike price of \$22.50. The current market price of the stock is \$25.75. At expiration, the value of the stock is \$23.00. The net profit/loss of the call position is *closest* to:

- A) -\$4.50.
 - B) -\$5.00.
 - C) \$4.50.
-

Question #61 of 164

Question ID: 416028

The shape of a protective put payoff diagram is most similar to a:

- A) long call.
 - B) short call.
 - C) covered call.
-

Question #62 of 164

Question ID: 416020

George Mote owns stock in IBM currently valued at \$112 per share. Mote writes a call option on IBM with an exercise price of \$120. The call option is sold for \$1.80. At expiration, the price of IBM is \$115. What is Mote's profit (or loss) from his covered call strategy? Mote:

- A) gained \$4.80.
 - B) lost \$3.20.
 - C) gained \$3.00.
-

Question #63 of 164

Question ID: 500880

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

Question #64 of 164

Question ID: 415822

In the trading of futures contracts, the role of the clearinghouse is to:

- A) stabilize the market price fluctuations of the underlying commodity.

- B) guarantee that all obligations by traders, as set forth in the contract, will be honored.
 - C) maintain private insurance that can be used to provide funds if a trader defaults.
-

Question #65 of 164

Question ID: 415996

A put option has a strike price of \$65, and the stock price is \$39 at expiration. The expiration day value of the put option is:

- A) \$65.
 - B) \$26.
 - C) \$0.
-

Question #66 of 164

Question ID: 415714

Which of the following is NOT an over-the-counter (OTC) derivative?

- A) A forward contract.
 - B) A futures contract.
 - C) A bond option.
-

Question #67 of 164

Question ID: 456308

Which of the following is a difference between futures and forward contracts? Futures contracts are:

- A) over-the-counter instruments.
 - B) standardized.
 - C) larger than forward contracts.
-

Question #68 of 164

Question ID: 500879

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) equal to its intrinsic value.
 - C) less than that of an otherwise identical American call option.
-

Question #69 of 164

Question ID: 416019

James Jackson currently owns stock in PNG, Inc., valued at \$145 per share. Thinking that PNG is overbought and will decrease in price soon, Jackson writes a call option on PNG with an exercise price of \$148 for a premium of \$2.40. At expiration of the option, PNG stock is valued at \$152 per share. What is the profit or loss from Jackson's covered call strategy? Jackson:

- A) gained \$5.40.
 - B) gained \$9.40.
 - C) lost \$4.60.
-

Question #70 of 164

Question ID: 416009

A put on Stock X with a strike price of \$40 is priced at \$3.00 per share; while a call with a strike price of \$40 is priced at \$4.50. What is the maximum per share loss to the writer of the uncovered put and the maximum per share gain to the writer of the uncovered call?

<u>Maximum Loss to Put Writer</u>	<u>Maximum Gain to Call Writer</u>
A) \$37.00	\$4.50
B) \$40.00	\$4.50
C) \$37.00	\$35.50

Question #71 of 164

Question ID: 415851

Which of the following represents a long position in an option?

- A) Buying a put option.
 - B) Writing a call option.
 - C) Writing a put option.
-

Question #72 of 164

Question ID: 415732

Which of the following relationships between arbitrage and market efficiency is *least* accurate?

- A) Market efficiency refers to the low cost of trading derivatives because of the lower expense to traders.

- B) The concept of rationally priced financial instruments preventing arbitrage opportunities is the basis behind the no-arbitrage principle.
 - C) Investors acting on arbitrage opportunities help keep markets efficient.
-

Question #73 of 164

Question ID: 415713

Which of the following definitions involving derivatives is *least* accurate?

- A) An arbitrage opportunity is the chance to make a riskless profit with no investment.
 - B) An option writer is the seller of an option.
 - C) A call option gives the owner the right to sell the underlying good at a specific price for a specified time period.
-

Question #74 of 164

Question ID: 492030

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

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

Question #75 of 164

Question ID: 472439

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

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

Question #76 of 164

Question ID: 492034

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 buying the put option.

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

Question #77 of 164

Question ID: 415715

Over-the-counter derivatives:

- A) are customized contracts.
 - B) have good liquidity in the over-the-counter (OTC) market.
 - C) are backed by the OTC Clearinghouse.
-

Question #78 of 164

Question ID: 415999

An investor buys 5 calls on Stock XYZ with a strike price of \$10 for a price of \$1 per call. Three months later, Stock XYZ is trading for \$15 per share. Each call entitles the owner to buy 2 shares of Stock XYZ. What is the investor's net profit?

- A) \$20.
 - B) \$45.
 - C) \$0.
-

Question #79 of 164

Question ID: 498774

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

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

Question #80 of 164

Question ID: 415802

Which of the following statements regarding futures and forward contracts is *least* accurate?

- A) Both forward contracts and futures contracts trade on organized exchanges.
 - B) Futures contracts are highly standardized.
 - C) Forwards require no cash transactions until the delivery date, while futures require a margin deposit when the position is opened.
-

Question #81 of 164

Question ID: 415733

Which of the following statements about arbitrage opportunities is CORRECT?

- A) Engaging in arbitrage requires a large amount of capital for the investment.
 - B) When an opportunity exists to profit from arbitrage, it usually lasts for several trading days.
 - C) Pricing errors in securities are instantaneously corrected by the first arbitrageur to recognize them.
-

Question #82 of 164

Question ID: 416001

An investor bought a 40 put on a stock trading at 43 for a premium of \$1. What is the maximum gain on the put and the value of the put at expiration if the stock price is \$41?

<u>Maximum Gain on Put</u>	<u>Value of the Put at Expiration</u>
----------------------------	---------------------------------------

- | | |
|---------|-----|
| A) \$42 | \$2 |
| B) \$39 | \$0 |
| C) \$40 | \$2 |
-

Question #83 of 164

Question ID: 500878

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

Question #84 of 164

Question ID: 472441

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

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

Question #85 of 164

Question ID: 415863

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 #86 of 164

Question ID: 415716

Which of the following is *most* accurate regarding derivatives?

- A) Derivatives have no default risk.
- B) Exchange-traded derivatives are created and traded by dealers in a market with no central location.
- C) Derivative values are based on the value of another security, index, or rate.

Question #87 of 164

Question ID: 415850

Which of the following statements about put and call options at expiration is *least* accurate?

Put

Call

- A) The maximum gain to the buyer is limited to the exercise price less the premium. The maximum gain to the buyer is unlimited.

- B) The maximum gain to the buyer is unlimited. The maximum loss to the writer is the premium.
- C) The maximum loss to a writer is the exercise price less the premium. The maximum gain to the buyer is unlimited.
-

Question #88 of 164

Question ID: 415929

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?

Value of a call option Value of a put option

- | | |
|-------------|----------|
| A) Increase | Decrease |
| B) Increase | Increase |
| C) Decrease | Increase |
-

Question #89 of 164

Question ID: 492028

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

Question #90 of 164

Question ID: 472450

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

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

Question #91 of 164

Question ID: 492029

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

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

Question #92 of 164

Question ID: 415848

Which of the following statements about the *potential* profits and losses from selling a call is *most* accurate?

- A) Losses are theoretically unlimited.
 - B) Profits are theoretically unlimited.
 - C) Losses are limited to the strike price plus the premium.
-

Question #93 of 164

Question ID: 415739

The process of arbitrage does all of the following EXCEPT:

- A) insure that risk-adjusted expected returns are equal.
 - B) promote pricing efficiency.
 - C) produce *riskless* profits.
-

Question #94 of 164

Question ID: 416008

An investor purchases a stock for \$40 a share and simultaneously sells a call option on the stock with an exercise price of \$42 for a premium of \$3/share. Ignoring dividends and transactions cost, what is the maximum profit that the writer of this covered call can earn if the position is held to expiration?

- A) \$2.
 - B) \$5.
 - C) \$3.
-

Question #95 of 164

Question ID: 415952

Which of the following statements regarding plain-vanilla interest rate swaps is *least* accurate?

- A) In a swap contract, the counterparties usually swap the notional principal.
 - B) The time frame covered by the swap is called the tenor of the swap.
 - C) The settlement dates are when the interest payments are to be made.
-

Question #96 of 164

Question ID: 500881

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

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

Question #97 of 164

Question ID: 434443

Shigeo Kishiro recently purchased an American put option and Lendon Grey recently wrote an American call option on the same underlying stock, Tackel Sports (currently trading at \$40 per share). Kishiro paid \$2.75 for an exercise price of \$38.00 and Grey received \$3.75 for a strike price of \$42. Assume that there are no transaction costs to exercise. Which of the following statements about the investors is *least accurate*?

- A) Kishiro's maximum gain is the strike price minus the premium.
 - B) Grey's maximum gain and Kishiro's maximum loss sum to zero.
 - C) Grey's maximum loss is unlimited.
-

Question #98 of 164

Question ID: 415734

Which of the following is *least likely* one of the conditions that must be met for a trade to be considered an arbitrage?

- A) There are no commissions.
 - B) There is no risk.
 - C) There is no initial investment.
-

Question #99 of 164

Question ID: 415998

A put option has a strike price of \$80, and the stock price is \$75 at expiration. The expiration day value of the put option is:

- A) \$80.
 - B) \$0.
 - C) \$5.
-

Question #100 of 164

Question ID: 434442

Shigeo Kishiro recently purchased an American put option and Lendon Grey recently wrote an American call option on the same underlying stock, Tackel Sports (currently trading at \$40 per share). Kishiro paid \$2.75 for an exercise price of \$38.00 and Grey received \$3.75 for a strike price of \$42. Assume that there are no transaction costs to exercise. At a stock price of \$43:

- A) if Grey exercises, he will have gained a total of \$4.75.
 - B) the put is at-the-money.
 - C) the intrinsic value of the call is \$1.
-

Question #101 of 164

Question ID: 415867

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

Question #102 of 164

Question ID: 472451

A synthetic European put option includes a short position in:

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

Question #103 of 164

Question ID: 472452

A synthetic European call option includes a short position in:

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

Question #104 of 164

Question ID: 416013

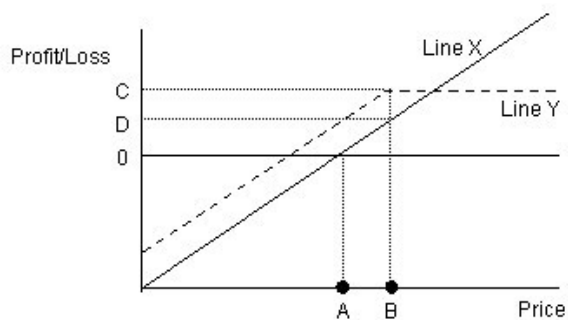
Linda Reynolds pays \$2.45 to buy a call option with a strike price of \$42. The stock price at which Reynolds earns \$3.00 from her call option position is:

- A) \$2.45.
- B) \$42.00.
- C) \$47.45.

Question #105 of 164

Question ID: 434445

Donner Foliette holds stock in Hamilton Properties, which is currently trading at \$25.70 per share. On the advice of this investment advisor, he conducts a covered call transaction at a strike price of \$30 and at a premium of \$3.50. The advisor drew the following graph to help explain the transaction.



Which of the following statements about this transaction is *least* accurate?

- A) Foliette believes the stock will appreciate significantly in the near future.
- B) If the stock price falls to \$23, Foliette will gain \$0.80 per share.
- C) The call buyer paid \$3.50 for the right to any gain above \$30.

Question #106 of 164

Question ID: 416023

The profit/loss diagram for a covered call strategy looks like what other type of profit/loss diagram?

- A) Short put.
 - B) Short call.
 - C) Long put.
-

Question #107 of 164

Question ID: 415721

In a credit default swap (CDS), the buyer of credit protection:

- A) issues a security that is paid using the cash flows from an underlying bond.
 - B) makes a series of payments to a credit protection seller.
 - C) exchanges the return on a bond for a fixed or floating rate return.
-

Question #108 of 164

Question ID: 415896

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) 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.
 - C) 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.
-

Question #109 of 164

Question ID: 415997

A call option has a strike price of \$120, and the stock price is \$105 at expiration. The expiration day value of the call option is:

- A) \$15.
 - B) \$105.
 - C) \$0.
-

Question #110 of 164

Question ID: 415797

Which of the following is *least likely* a characteristic of futures contracts? Futures contracts:

- A) require weekly settlement of gains and losses.
 - B) are backed by the clearinghouse.
 - C) are traded in an active secondary market.
-

Question #111 of 164

Question ID: 415858

An investor would exercise a put option when the:

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

Question #112 of 164

Question ID: 416015

Which of the following statements about put options is *least* accurate? The most the:

- A) writer can lose is the strike price less the premium.
 - B) buyer can gain is unlimited.
 - C) writer can gain is the put premium.
-

Question #113 of 164

Question ID: 415710

A financial instrument that has payoffs based on the price of an underlying physical or financial asset is a(n):

- A) future.
 - B) option.
 - C) derivative security.
-

Question #114 of 164

Question ID: 472453

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

- A) The future value of the forward price of the underlying asset.

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

Question #115 of 164

Question ID: 416018

In June, Todd Puckett bought stock in SBC Communications for \$30 per share. At that time, Puckett sold an equivalent number of call options on SBC with an exercise price of \$35 for \$2.75. In September, at expiration, the stock is trading at \$26. What is Puckett's profit per share from his covered call strategy? Puckett:

- A) gained \$4.00.
 - B) gained \$1.25.
 - C) lost \$1.25.
-

Question #116 of 164

Question ID: 472442

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

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

Question #117 of 164

Question ID: 415717

Typically, forward commitments are made with respect to all the following EXCEPT:

- A) bonds.
 - B) equities.
 - C) inflation.
-

Question #118 of 164

Question ID: 492027

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 #119 of 164

Question ID: 415869

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)	\$0	Out-of-the-money
C)	\$7	Out-of-the-money

Question #120 of 164

Question ID: 415887

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

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

Question #121 of 164

Question ID: 415919

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, long the put, and long 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, short the put, and short a pure discount bond that pays the exercise price at option expiration.
-

Question #122 of 164

Question ID: 472448

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

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

Question #123 of 164

Question ID: 492033

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

Question #124 of 164

Question ID: 415736

Which of the following is the *best* interpretation of the no-arbitrage principle?

- A) There is no free money.
 - B) There is no way you can find an opportunity to make a profit.
 - C) The information flow is quick in the financial market.
-

Question #125 of 164

Question ID: 472443

The underlying instrument in a forward rate agreement is:

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

Question #126 of 164

Question ID: 415920

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

Question #127 of 164

Question ID: 472444

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

Question #128 of 164

Question ID: 416011

Jimmy Casteel pays a premium of \$1.60 to buy a put option with a strike price of \$145. If the stock price at expiration is \$128, Casteel's profit or loss from the options position is:

- A) \$15.40.
 - B) \$18.40.
 - C) \$1.60.
-

Question #129 of 164

Question ID: 416004

Consider a call option with a strike price of \$32. If the stock price at expiration is \$41, the value of the call option is:

- A) \$0.
 - B) \$41.
 - C) \$9.
-

Question #130 of 164

Question ID: 415745

Some forward contracts are termed *cash settlement* contracts. This means:

- A) at contract expiration, the long can buy the asset from the short or pay the difference between the market price of the asset and the contract price.
 - B) at settlement, the long purchases the asset from the short for cash.
 - C) either the long or the short in the forward contract will make a cash payment at contract expiration and the asset is not delivered.
-

Question #131 of 164

Question ID: 415737

The process that ensures that two securities positions with identical future payoffs, regardless of future events, will have the same price is called:

- A) the law of one price.
 - B) exchange parity.
 - C) arbitrage.
-

Question #132 of 164

Question ID: 416003

Mosaks, Inc., has a put option with a strike price of \$105. If Mosaks stock price is \$115 at expiration, the value of the put option is:

- A) \$10.
 - B) \$105.
 - C) \$0.
-

Question #133 of 164

Question ID: 415921

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

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

Question #134 of 164

Question ID: 492026

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

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

Question #135 of 164

Question ID: 416030

An investor buys a 30 put on a share of stock for a premium of \$7 and simultaneously buys a share of stock for \$26. The breakeven price on the position and the maximum gain on the position are:

	<u>Breakeven</u> <u>price</u>	<u>Maximum gain</u>
A) \$21	\$11	
B) \$37	\$11	
C) \$33	unlimited	

Question #136 of 164

Question ID: 415866

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 #137 of 164

Question ID: 415743

The short in a forward contract:

- A) has the right to deliver the asset upon expiration of the contract.
 - B) is obligated to deliver the asset upon expiration of the contract.
 - C) is obligated to deliver the asset anytime prior to expiration of the contract.
-

Question #138 of 164

Question ID: 416027

A covered call position is:

- A) the purchase of a share of stock with a simultaneous sale of a call on that stock.
 - B) the purchase of a share of stock with a simultaneous sale of a put on that stock.
 - C) the simultaneous purchase of the call and the underlying asset.
-

Question #139 of 164

Question ID: 415727

Which of the following statements about arbitrage is NOT correct

- A) Arbitrage can cause markets to be less efficient.
 - B) If an arbitrage opportunity exists, making a profit without risk is possible.
 - C) No investment is required when engaging in arbitrage.
-

Question #140 of 164

Question ID: 460708

Which of the following statements about options is *most accurate*?

- A) The holder of a call option has the obligation to sell to the option writer if the stock's price rises above the strike price.
 - B) The writer of a put option has the obligation to sell the asset to the holder of the put option.
 - C) The holder of a put option has the right to sell to the writer of the option.
-

Question #141 of 164

Question ID: 415849

Regarding buyers and sellers of put and call options, which of the following statements concerning the resulting option position is *most accurate*? The buyer of a:

- A) call option is taking a long position and the buyer of a put option is taking a short position.
 - B) call option is taking a long position while the seller of a put is taking a short position.
 - C) put option is taking a short position and the seller of a call option is taking a short position.
-

Question #142 of 164

Question ID: 415988

In a plain vanilla interest rate swap:

- A) one party pays a floating rate and the other pays a fixed rate, both based on the notional amount.
- B) each party pays a fixed rate of interest on a notional amount.

C) payments equal to the notional principal amount are exchanged at the initiation of the swap.

Question #143 of 164

Question ID: 415708

Which of the following statements regarding exchange-traded derivatives is NOT correct? Exchange-traded derivatives:

- A) often trade in a physical location.
 - B) are illiquid.
 - C) are standardized contracts.
-

Question #144 of 164

Question ID: 415740

An analyst determines that a portfolio with a 35% weight in Investment P and a 65% weight in Investment Q will have a standard deviation of returns equal to zero.

- Investment P has an expected return of 8%.
- Investment Q has a standard deviation of returns of 7.1% and a covariance with the market of 0.0029.
- The risk-free rate is 5% and the market risk premium is 7%.

If no arbitrage opportunities are available, the expected rate of return on the combined portfolio is *closest to*:

- A) 6%.
 - B) 7%.
 - C) 5%.
-

Question #145 of 164

Question ID: 472437

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 #146 of 164

Question ID: 415742

The party to a forward contract that is obligated to purchase the asset is called the:

- A) long.
 - B) receiver.
 - C) short.
-

Question #147 of 164

Question ID: 415818

If the margin balance in a futures account with a long position goes below the maintenance margin amount:

- A) a deposit is required to return the account margin to the initial margin level.
 - B) a deposit is required which will bring the account to the maintenance margin level.
 - C) a margin deposit equal to the maintenance margin is required within two business days.
-

Question #148 of 164

Question ID: 416002

An investor bought a 15 call for \$14 on a stock trading at \$20. If the stock is trading at \$24 at option expiration, what is the profit and the value of the call at option expiration?

<u>Profit</u>	<u>Value of the Call</u>
A) -\$5	\$9
B) \$1	\$9
C) -\$5	\$5

Question #149 of 164

Question ID: 415720

Credit derivatives are *least accurately* characterized as:

- A) contingent claims.
 - B) forward commitments.
 - C) insurance.
-

Question #150 of 164

Question ID: 710167

A covered call position has the same shape of its payoff diagram as:

- A) owning the stock and a call.
 - B) owning the stock and a put.
 - C) writing a put.
-

Question #151 of 164

Question ID: 472438

The value of a forward or futures contract is:

- A) typically zero at initiation.
 - B) specified in the contract.
 - C) equal to the spot price at expiration.
-

Question #152 of 164

Question ID: 415862

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

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

Question #153 of 164

Question ID: 416025

The potential profits from writing a covered call position on a stock are:

- A) limited to the premium.
 - B) limited to the premium plus stock appreciation up to the exercise price.
 - C) greater than the potential profits from owning the stock.
-

Question #154 of 164

Question ID: 415730

One reason that criticism has been leveled at derivatives and derivatives markets is that:

- A) derivatives expire.
 - B) they are complex instruments and sometimes hard to understand.
 - C) derivatives have too much default risk.
-

Question #155 of 164

Question ID: 492032

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

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

Question #156 of 164

Question ID: 496436

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

Question #157 of 164

Question ID: 710166

A legally binding promise to buy 140 oz. of gold two months from now at a price agreed upon today is *most likely* a:

- A) hedge.
 - B) futures contract.
 - C) forward commitment.
-

Question #158 of 164

Question ID: 415709

A derivative security:

- A) is like a callable bond.
 - B) has a value dependent on the shape of the yield curve.
 - C) is one that is based on the value of another security.
-

Question #159 of 164

Question ID: 416000

An investor writes a July 20 call on a stock trading at 23 for premium of \$4. The breakeven price on the trade and the maximum gain on the trade are, respectively:

	<u>Breakeven</u> <u>Price</u>	<u>Maximum Gain</u>
A) \$24	\$4	
B) \$27	\$4	
C) \$24	\$3	

Question #160 of 164

Question ID: 415711

A derivative security:

- A) has a value based on another security or index.
 - B) has a value based on stock prices.
 - C) has no default risk.
-

Question #161 of 164

Question ID: 456306

Which of the following statements about futures and the clearinghouse is *least* accurate? The clearinghouse:

- A) guarantees that traders in the futures market will honor their obligations.
 - B) has defaulted on one half of one percent of futures trades.
 - C) requires the daily settlement of all margin accounts.
-

Question #162 of 164

Question ID: 472455

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

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

Question #163 of 164

Question ID: 472454

In a one-period binomial model for option pricing:

- A) the size of an up-move and the size of a down-move must sum to one.
 - B) the risk-neutral probability of a down-move is the reciprocal of the risk-neutral probability of an up-move.
 - C) the exercise price of the option is one of the required inputs.
-

Question #164 of 164

Question ID: 415728

Which of the following is a common criticism of derivatives?

- A) Derivatives are too illiquid.
- B) Derivatives are likened to gambling.
- C) Fees for derivatives transactions are relatively high.