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Courses » **Commodity Derivatives and Risk Management**

Announcements **Course** Ask a Question Progress Mentor

Unit 4 - Week 3

Course outline

How to access the portal?

Week 1

Week-2

Week 3

- Lecture 11: Commodity Basic Risk (Part-II)
- Lecture 12: Minimum Variance Hedge Ratio (Part I)
- Lecture 13: Minimum Variance Hedge Ratio (Part II)
- Lecture 14: Commodity Indexes (Part - I)
- Lecture 15: Commodity Indexes (Part - II)
- Quiz : Assignment -3
- Cross Hedge Effectiveness of CME Group Contracts on Agricultural Commodities-Lecture 11 Supplementary material
- Basis Risk-Long-short hedger - Lecture 11 Supplementary material

Assignment -3

The due date for submitting this assignment has passed. **Due on 2016-08-10, 23:30 IST.**

Submitted assignment

1) Choose the CORRECT statement: Contract offset date is *2 points*

- same as contract maturity date
- the date on which hedger buys/sells his commodity in spot market
- the date a trader squares off its open short/long futures position
- same as the contract delivery date

No, the answer is incorrect.
Score: 0

Accepted Answers:
the date a trader squares off its open short/long futures position

2) Choose the CORRECT statement: Basis risk is defined as *2 points*

- change of basis between contract initiation date and contract offset date
- change of basis between contract offset date and contract delivery date
- change of basis during 1st of month to 20th of Month for any commodity futures
- change of near month and far month futures prices over a specific time period

No, the answer is incorrect.
Score: 0

Accepted Answers:
change of basis between contract initiation date and contract offset date

3) Choose the CORRECT statement: Suppose “C” is the correlation between change in spot price of and change in futures price for a commodity. *2 points*

- If C is negative, minimum variance hedge ratio cannot be found out
- For a hedge to work, C should be positive
- C can never be negative
- C is always 1

No, the answer is incorrect.
Score: 0

Accepted Answers:
For a hedge to work, C should be positive

4) Naïve hedge *2 points*

- indicates that if a hedger is long in 100 units of underlying asset, the hedger takes long futures positions in 100 units worth of underlying asset

- Minimum Variance Hedge Ratio - Lecture 12 Supplementary material
- MCX COMDEX - Lecture 14 Supplementary material
- Dhanya-NCDEX - Lecture 14 Supplementary material
- Assignment 3- Solution

Week 4

Week 5

Week 6

Week 7:

Week 8

- is same as optimal hedge ratio which needs to be found out based on relationship between changes in spot and futures price movement
- indicates that if a hedger is long in 100 units of underlying asset, the hedger takes short futures positions in 100 units worth of underlying asset
- indicates that if a hedger is long on asset A, it takes short position in asset B if futures contracts on asset A are not available

No, the answer is incorrect.
Score: 0

Accepted Answers:
indicates that if a hedger is long in 100 units of underlying asset, the hedger takes short futures positions 100 units worth of underlying asset

5) Hedging price risk of Cardamom with Black Pepper futures contract is an example of ***2 points***

- basis Hedge
- beta Hedge
- cross Hedge
- minimum Variance Hedge

No, the answer is incorrect.
Score: 0

Accepted Answers:
cross Hedge

6) Choose the INCORRECT statement. You have calculated the monthly seasonal index for a specific commodity based on its spot prices. ***2 points***

- The index value for a given month can never be negative
- The sum of the twelve monthly index numbers should be 12
- An index of 0.87 for January indicates average price during January is 13% lower than the average monthly prices
- An index of 1.25 for December indicates that December price are 125% above the average sales

No, the answer is incorrect.
Score: 0

Accepted Answers:
An index of 1.25 for December indicates that December price are 125% above the average sales

7) Choose the CORRECT statement: ***2 points***

- Higher coefficient of determination indicates higher percentage of spot price volatility is explained by futures price volatility
- Higher coefficient of determination indicates higher percentage of futures price volatility is explained by spot price volatility
- In case of minimum variance hedged portfolio, the optimal combination of spot and futures contracts leads to least amount of portfolio return
- In case of minimum variance hedged portfolio, the optimal combination of spot and futures contracts leads to highest amount of portfolio variance

No, the answer is incorrect.
Score: 0

Accepted Answers:
Higher coefficient of determination indicates higher percentage of spot price volatility is explained by futur price volatility

8) The correlation coefficient between changes in spot and futures price series for a commodity is 0.63. The standard deviation of changes in futures price and spot price are 55% and 70% respectively. The hedge effectiveness is (choose the closest CORRECT option) ***2 points***

- 40%
- 80%
- 49%

85%

No, the answer is incorrect.
Score: 0

Accepted Answers:
40%

9) Choose the CORRECT statement: Commodity Options **2 points**

- normally have commodity futures as underlying
- after exercising, long put option holder takes long position in commodity futures at the exercise price
- after exercising, long put option holder takes short position in commodity futures at the prevailing futures price
- after exercising, long call option holder takes short position in commodity futures at the exercise price

No, the answer is incorrect.
Score: 0

Accepted Answers:
normally have commodity futures as underlying

10) Choose the INCORRECT statement: **2 points**

- Basis is negative in case of contango market
- Basis is normally zero on contract maturity date
- In case of a forward contract, there is no basis risk
- If the commodity underlying the spot and futures contracts are same, there will be no basis risk

No, the answer is incorrect.
Score: 0

Accepted Answers:
If the commodity underlying the spot and futures contracts are same, there will be no basis risk

11) In case of commodity index based on commodity futures, **2 points**

- rollover is mandatory
- is always calculated for futures contracts traded at one commodity exchange only
- weights of constituent contracts change on daily basis
- None of the above is applicable

No, the answer is incorrect.
Score: 0

Accepted Answers:
None of the above is applicable

12) Today is the third day of index rollover process which gets completed in 4 days at the rate of 25% per day. Today the spot, near month futures, mid-month futures prices for a commodity is Rs.140, Rs. 150, Rs.142 respectively. What price should be considered for calculation of index? **2 points**

- Rs. 140
- Rs. 148
- Rs. 142.5
- Rs. 150

No, the answer is incorrect.
Score: 0

Accepted Answers:
Rs. 148

13) Choose the INCORRECT statement: MCX COMDEX **2 points**

- is an index of most liquid futures contracts traded at MCX
- consists of futures contracts of Agri-commodities, Metal and Energy commodities
- is calculated "without rollover" mechanism.

- weights rebalancing is done on daily basis like equity indexes such as NIFTY/SENSEX

No, the answer is incorrect.
Score: 0

Accepted Answers:
weights rebalancing is done on daily basis like equity indexes such as NIFTY/SENSEX

14) Choose the INCORRECT statement: NCDEX Dhannya **2 points**

- consists of futures contracts on all types of underlying listed and traded at NCDEX.
- considers only the nearby futures price
- is a value weighted index and weights are based on national production and traded value
- constituent futures contracts are rolled over to the next nearby month based on a specified rollover method

No, the answer is incorrect.
Score: 0

Accepted Answers:
consists of futures contracts on all types of underlying listed and traded at NCDEX.

15) With respect to “roll yield” **2 points**

- a. A long futures contract position holder shifts from near month to next near month futures contract. He will have a positive roll yield in a contango market
- A long futures contract position holder shifts from near month to next near month futures contract. He will have a negative roll yield in a contango market
- A short futures contract position holder shifts from near month to next near month futures contract. He will have a positive roll yield in backwardation market
- A short futures contract position holder shifts from near month to next near month futures contract. He will have a negative roll yield in a contango market

No, the answer is incorrect.
Score: 0

Accepted Answers:
A long futures contract position holder shifts from near month to next near month futures contract. He will have a negative roll yield in a contango market

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