



## Unit 6 - Week 5

### Course outline

How to access the portal?

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Week 5

- Lecture 21: Commodity Prices Determination Part II
- Lecture 22: Crude Oil Derivatives Part I
- Lecture 23: Crude Oil Price Determination
- Lecture 24: Spot-Futures Relationship in Crude Oil (Part I)
- Lecture 25: Spot-Futures Relationship in Crude Oil (Part II)
- Crush Margin example- Lecture 21 Supplementary Material
- Soyabean Bean Crush Options- CME-Lecture 21 Supplementary Material
- Brief History of OPEC-Lecture

### Assignment 5

The due date for submitting this assignment has passed. **Due on 2016-08-24, 23:00 IST.**

#### Submitted assignment

1) Choose the INCORRECT statement 2 points

- Lower the Nelson complexity index, higher the efficiency of the refinery
- Sour crude have higher sulphur component
- API measures the relative density of crude oil against water.
- A barrel is equivalent to 159 liters

**No, the answer is incorrect.**

**Score: 0**

**Accepted Answers:**

*Lower the Nelson complexity index, higher the efficiency of the refinery*

2) A barrel of crude oil equivalent to \_\_\_\_\_ gallons or \_\_\_\_\_ liters of crude oil 2 points

- 12, 160
- 42, 160
- 42, 159
- 12, 159

**No, the answer is incorrect.**

**Score: 0**

**Accepted Answers:**

*42, 159*

3) Choose the INCORRET statement with respect to US Dollar Index 2 points

- Crude oil price and US Dollar exhibit negative relationship. i.e when US Dollar weakens, crude oil price goes up and vice versa
- US Dollar index measures the value of US Dollar relative to Euro
- When US Dollar strengthens against other currencies, the index increases
- Base year for the index is 1973 with base value of 100

**No, the answer is incorrect.**

**Score: 0**

**Accepted Answers:**

*US Dollar index measures the value of US Dollar relative to Euro*

4) Match the correct combinations a. upstream (i) refining b. midstream (ii)Exploration & development of oil fields c. downstream (iii)distribution of refined products 2 points

- a(iii), b(ii), c(i)

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Supplementary  
Material

○ Crude Oil-  
Indian Basket-  
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○ Shale vs crude-  
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○ Spot price WTI-  
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○ CME-Crude Oil-  
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○ Crude oil-  
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○ Crude-oil-  
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○ RIL Commodity  
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○ SCME-MCX-  
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○ Quiz :  
Assignment 5

○ Assignment 5-  
Solution

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- a(i), b(ii), c(iii)
- a(ii), b(i), c(iii)
- a(ii), b(iii), c(i)

**No, the answer is incorrect.**

**Score: 0**

**Accepted Answers:**

*a(ii), b(i), c(iii)*

5) When crude oil inventory \_\_\_\_\_, forward curve exhibits \_\_\_\_\_ **2 points**

- goes up, contango
- goes down, contango
- does not change, backwardation
- goes up, backwardation

**No, the answer is incorrect.**

**Score: 0**

**Accepted Answers:**

*goes up, contango*

6) In cash-and-carry arbitrage, on the trade date, the trader undertakes the following activities **2 points**

- Borrow cash, buy crude oil, store it and enter into long futures position
- Short sell crude oil, invest sale proceeds and enter into long futures position
- Borrow cash, buy crude oil, store it and enter into short futures position
- Short sell crude oil, invest sale proceeds and enter into short futures position

**No, the answer is incorrect.**

**Score: 0**

**Accepted Answers:**

*Borrow cash, buy crude oil, store it and enter into short futures position*

7) In reverse cash-and-carry arbitrage, on the trade date, the trader undertakes the following activities **2 points**

- Borrow cash, buy crude oil, store it and enter into long futures position
- Short sell crude oil, invest sale proceeds and enter into long futures position
- Borrow cash, buy crude oil, store it and enter into short futures position
- Short sell crude oil, invest sale proceeds and enter into short futures position

**No, the answer is incorrect.**

**Score: 0**

**Accepted Answers:**

*Short sell crude oil, invest sale proceeds and enter into long futures position*

8) Choose CORRECT statement: Market Crudes **2 points**

- are those crude oil variety that serves as a reference price for buyers and sellers of crude oil.
- all other crude varieties trade at a discount to these marker crudes
- all other crude varieties have higher Sulphur percentage than marker crudes
- spot prices of all marker crudes are posted by OPEC

**No, the answer is incorrect.**

**Score: 0**

**Accepted Answers:**

*are those crude oil variety that serves as a reference price for buyers and sellers of crude oil.*

9) Match the following: A) WTI (i) North sea B) Brent (ii) Cushing C) Argus Media (iii) weighted average spot price D) OPEC reference Basket (iv) Sour crude **2 points**

- A(i), B(ii), C(iii), D(iv)
- A(iv), B(iii), C(ii), D(i)
- A( iii), B(iv), C(i) , D(ii)

- A(ii), B(i), C(iv), D(iii)

**No, the answer is incorrect.**

**Score: 0**

**Accepted Answers:**

*A(ii), B(i), C(iv), D(iii)*

10) A swing producer

**2 points**

- Reduces/increases price to stimulate/reduce demand for a commodity
- Reduces/increases volume of production to increase/decrease price
- Reduces/increases value of production to increase/decrease volume of sales
- Only focuses on long term price movement and does not worry about short/medium term price fluctuation

**No, the answer is incorrect.**

**Score: 0**

**Accepted Answers:**

*Reduces/increases volume of production to increase/decrease price*

11) Choose the CORRECT statement

**2 points**

- The DDR calculation for MCX crude oil contract is the WTI spot price \* USD INR exchange rate given by RBI
- At CME, monthly futures contract on WTI crude oil are available for 9 years into future
- AT MCX, futures contracts on crude oil have underlying which can be categorized as "heavy sour crude"
- CME WTI futures contracts are expire on the third business day prior to the twenty-fifth calendar day of the month preceding the delivery month

**No, the answer is incorrect.**

**Score: 0**

**Accepted Answers:**

*CME WTI futures contracts are expire on the third business day prior to the twenty-fifth calendar day of the month preceding the delivery month*

12) Nelson complexity index measures

**2 points**

- Sweet or sourness of crude oil input
- Sulphur content in crude oil input
- Viscosity of the crude oil input
- Capacity to change the output mix of refined product

**No, the answer is incorrect.**

**Score: 0**

**Accepted Answers:**

*Capacity to change the output mix of refined product*

13) API gravity measures relative density of crude oil against

**2 points**

- Natural gas
- Liquefied Petroleum Gas
- Water
- Sulphur

**No, the answer is incorrect.**

**Score: 0**

**Accepted Answers:**

*Water*

14) Choose the CORRECT statement :

**2 points**

- WTI crude oil always quotes at a higher price than Brent
- OPEC sets the crude oil price for all types of crude oil.
- Crude oil has negative relationship with USD index

- Financialization of crude oil has reduced the demand for crude oil.

**No, the answer is incorrect.**

**Score: 0**

**Accepted Answers:**

*Crude oil has negative relationship with USD index*

15 Crude oil quality is measured by

**2 points**

- OPEC
- American Petroleum Institute
- Petroleum Association of Japan
- Argus Media

**No, the answer is incorrect.**

**Score: 0**

**Accepted Answers:**

*American Petroleum Institute*

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