Unit 13 - Week 11

Assignment 11

The due date for submitting this assignment has passed.
As per our records you have not submitted this assignment.

Due on 2020-04-15, 23:59 IST.

1) When futures price prevails below the expected future spot price, it is known as contango. *1 point*

- a. True
- b. False

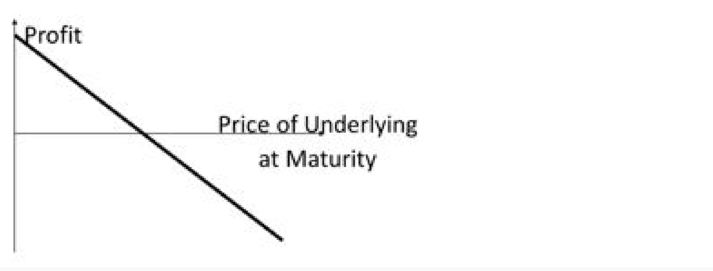
No, the answer is incorrect.
Score: 0
Accepted Answers:
b. False

2) The spot price of an asset is $8000 and forward contract price for the asset deliverable in 4 years is $10,000. Assuming that the risk free rate is 5% per annum, profit can be earned by taking a long position in forward contract, short selling the asset at 8000 and investing the proceeds at 5% per annum. *1 point*

- a. True
- b. False

No, the answer is incorrect.
Score: 0
Accepted Answers:
b. False

3) Which of the following is represented by the figure below? *1 point*



- a. Profit from a Long Forward Position
- b. Profit from a Short Forward Position
- c. Profit from a Short Call Position
- d. Profit from a Long Call Position

No, the answer is incorrect.
Score: 0
Accepted Answers:
b. Profit from a Short Forward Position

4) Which of the following is not true about forwards agreements? *1 point*

- a. They require no initial investments
- b. They are standardized
- c. Settlement takes place on a specific date in the future at today's pre-agreed price
- d. There may be credit risk involved

No, the answer is incorrect.
Score: 0
Accepted Answers:
b. They are standardized

5) An European option can be exercised at any time during its life *1 point*

- a. True
- b. False

No, the answer is incorrect.
Score: 0
Accepted Answers:
b. False

6) The difference between the strike price and the market price of the underlying security is called the option premium *1 point*

- a. True
- b. False

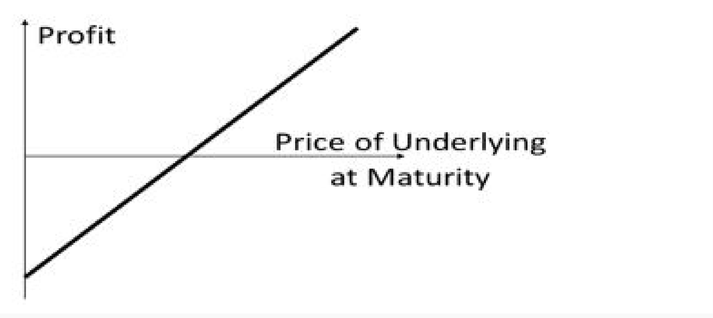
No, the answer is incorrect.
Score: 0
Accepted Answers:
b. False

7) Which one of the following actions will offset a long position in a futures contract that expires in the month of May? *1 point*

- a. Sell any futures contract, regardless of its expiration date.
- b. Sell a futures contract that expires in May.
- c. Buy any futures contract, regardless of its expiration date.
- d. Buy a futures contract that expires in May.

No, the answer is incorrect.
Score: 0
Accepted Answers:
b. Sell a futures contract that expires in May.

8) Which of the following is represented by the figure below? *1 point*



- a. Profit from a Long Forward Position
- b. Profit from a Short Forward Position
- c. Profit from a Short Call Position
- d. Profit from a Long Call Position

No, the answer is incorrect.
Score: 0
Accepted Answers:
a. Profit from a Long Forward Position

9) Using futures contracts to transfer price risk is called speculating. *1 point*

- a. True
- b. False

No, the answer is incorrect.
Score: 0
Accepted Answers:
b. False

10) Which of the following is best described as selling a synthetic asset and simultaneously buying the actual asset? *1 point*

- a. Arbitrage.
- b. Speculating.
- c. Hedging.
- d. Diversifying.

No, the answer is incorrect.
Score: 0
Accepted Answers:
a. Arbitrage.

11) Which of the following is potentially obligated to buy an asset at a predetermined price? *1 point*

- a. A call buyer
- b. A call writer
- c. A put buyer
- d. A put writer

No, the answer is incorrect.
Score: 0
Accepted Answers:
d. A put writer

12) A put option has a strike price of $45. The price of the underlying stock is currently $52. The put is: *1 point*

- a. At the money.
- b. Out of the money.
- c. Near the money.
- d. In the money.

No, the answer is incorrect.
Score: 0
Accepted Answers:
b. Out of the money.

13) A call option has a strike price of $25. The price of the underlying stock is currently $72. The put is: *0 points*

- a. At the money.
- b. Out of the money.
- c. Near the money.
- d. In the money.

No, the answer is incorrect.
Score: 0
Accepted Answers:
d. In the money.

14) A call option with a strike price of $55 can be bought for $4. What will be your net profit if you sell the call and the stock price is $52 when the call expires? *1 point*

- a. $4
- b. –$4
- c. –$7
- d. $0

No, the answer is incorrect.
Score: 0
Accepted Answers:
a. $4

15) Which of the following has the right to sell an asset at a predetermined price? *1 point*

- a. A call buyer
- b. A put writer
- c. A put buyer
- d. A call writer

No, the answer is incorrect.
Score: 0
Accepted Answers:
c. A put buyer

16) Which of the following is potentially obligated to sell an asset at a predetermined price? *1 point*

- a. A call buyer
- b. A put writer
- c. A put buyer
- d. A call writer

No, the answer is incorrect.
Score: 0
Accepted Answers:
d. A call writer

17) Which of the following strategies will be profitable if the price of the underlying asset is expected to decrease? *1 point*

- a. Selling a put
- b. Selling a call
- c. Buying a put
- d. Buying a call

No, the answer is incorrect.
Score: 0
Accepted Answers:
b. Selling a call
c. Buying a put

18) Which of the following is not a financial derivative? *1 point*

- a. Options
- b. Futures
- c. Swaps
- d. Stocks

No, the answer is incorrect.
Score: 0
Accepted Answers:
d. Stocks

19) A contract that requires the investor to buy securities on a future date is called a __________ *1 point*

- a. Long Contract
- b. Short Contract
- c. Hedge
- d. Cross

No, the answer is incorrect.
Score: 0
Accepted Answers:
a. Long Contract

20) The advantage of forward contracts over futures contracts is that they _______________ *1 point*

- a. are standardized.
- b. have lower default risk.
- c. are more flexible.
- d. both (a) and (b)

No, the answer is incorrect.
Score: 0
Accepted Answers:
c. are more flexible.