

**FINANCIAL DERIVATIVES
SAMPLE QUESTIONS**

	FINANCIAL DERIVATIVES SAMPLE QUESTIONS
Q1.	<p>A strangle is an investment strategy that combines</p> <ul style="list-style-type: none"> a. A call and a put for the same expiry date but at different strike prices b. Two puts and one call with the same expiry date c. Two calls and one put with the same expiry dates d. A call and a put at the same strike price and expiry date <p>Answer: a.</p>
Q2.	<p>A trader buys 2 June expiry call options each at a strike price of Rs. 200 and Rs. 220 and sells two call options with a strike price of Rs. 210, this strategy is a</p> <ul style="list-style-type: none"> a. Bull Spread b. Bear call spread c. Butterfly spread d. Calendar spread <p>Answer c.</p>
Q3.	<p>The option price will ceteris paribus be negatively related to the volatility of the cash price of the underlying.</p> <ul style="list-style-type: none"> a. The statement is true b. The statement is false c. The statement is partially true d. The statement is partially false <p>Answer: b.</p>
Q 4.	<p>A put option with a strike price of Rs. 1176 is selling at a premium of Rs. 36. What will be the price at which it will break even for the buyer of the option</p> <ul style="list-style-type: none"> a. Rs. 1870 b. Rs. 1194 c. Rs. 1140 d. Rs. 1940 <p>Answer b.</p>
Q5	<p>A put option should always be exercised _____ if it is deep in the money</p> <ul style="list-style-type: none"> a. early b. never c. at the beginning of the trading period d. at the end of the trading period <p>Answer a.</p>
Q6.	<p>Bermudan options can only be exercised at maturity</p> <ul style="list-style-type: none"> a. only at maturity b. at any time during the life of the option c. at the mid-point during the life of the option d. at any of the specified dates during the life of the option <p>Answer d.</p>
Q7.	<p>According to the Black-Scholes option pricing model:</p> <ul style="list-style-type: none"> a. the option price does not depend on the risk-free interest rate b. the most difficult parameter to estimate is the risk-free interest rate c. the option price does not depend on the expected return of the underlying stock

	<p>d. an at-the-money call is worth the same as an at-the-money put</p> <p>Answer d.</p>
Q8.	<p>In the Black and Scholes option pricing formula, an increase in a stock's volatility:</p> <p>a. Increases the associated call option value</p> <p>b. Decreases the associated put option value</p> <p>c. Increases or decreases the option value, depending on the level of interest rates</p> <p>d. Does not change either the put or call option value because put-call parity holds</p> <p>Answer: a.</p>
Q9.	<p>Mr. A. owns 200 shares of Company X. However, he is uncomfortable with the current price movements and he can hedge his position by</p> <p>a. Buying one futures contract of Company X</p> <p>b. Buying two futures contract of Company X</p> <p>c. Selling one futures contract of company X</p> <p>d. Selling two futures contract of company X</p> <p>Answer d.</p>
Q10	<p>The rate of change of the option price with reference to the price of the underlying asset is</p> <p>a. Theta</p> <p>b. Rho</p> <p>c. Delta</p> <p>d. Gamma</p> <p>Answer c.</p>
Q11	<p>The Charm of an option is</p> <p>a. the change in the option price with reference to the cost of carry</p> <p>b. measures the sensitivity to changes in interest rate</p> <p>c. is the rate of change of the value of the option with respect to time</p> <p>d. measures the change in delta</p> <p>Answer d.</p>
Q12	<p>Hedging strategy</p> <p>a. removes losses</p> <p>b. helps reduce risk</p> <p>c. helps make excess profits</p> <p>d. is independent of risk</p> <p>Answer b.</p>
Q13	<p>Identify the false statement.</p> <p>a. Futures contracts trade on a financial exchange.</p> <p>b. Futures contracts are marked to market.</p> <p>c. Futures contracts allow fewer delivery options than forward contracts.</p> <p>d. Futures contracts are more liquid than forward contracts.</p> <p>Answer: c</p>
Q14.	<p>An _____ gives the buyer the right, but not the obligation, to exercise the option at any time before the expiration date</p> <p>a. European option</p> <p>b. Asian option</p> <p>c. American option</p> <p>d. complex option</p>

	Answer: c.
Q15	<p>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?</p> <p>a. 0 b. 3 c. 4 d. -4</p> <p>Answer: C</p>
Q16	<p>An open position in the options market exists only for</p> <p>a. long calls b. long puts c. short calls and long puts d. long position and short position in both calls and puts</p> <p>Answer d.</p>
Q17	<p>An option series refers to a set of option contracts that belong to the same class of options and drawn on</p> <p>a. the same underlying asset with different strike prices and the same expiration month b. the same underlying asset with the same strike price and the same expiration month c. different underlying assets with the same strike price and the same expiration month d. different underlying assets with different strike prices and the same expiration month</p> <p>Answer a.</p>
Q18	<p>The combination of buying a call and a put option at the different exercise prices then it would be a</p> <p>a. Straddle b. Strangle c. hedge d. Bull Spread</p> <p>Answer b.</p>
Q19	<p>The option price ceteris paribus will be _____ related to the amount of time that the option has to run before expiry.</p> <p>a. positively b. negatively c. positively and negatively d. independent</p> <p>Answer a.</p>
Q20	<p>The option premium usually is</p> <p>a. Less than the sum of intrinsic value and time value b. Greater than the sum of intrinsic value and time value</p>

	<p>c. Equal to the sum of intrinsic value and time value d. Independent of intrinsic value and time value Answer c.</p>
Q21	<p>Samy is bullish on Reliance Industries and buys ten one month Reliance futures contracts at Rs. 2,96,00. On the last Friday of the month, Reliance Industries closes at Rs. 271 per shares. Samy makes a _____</p> <p>a. profit of Rs. 15,000 b. profit of Rs. 25,000 c. Loss of Rs. 15,000 d. Loss of Rs. 25,000 Answer d.</p>
Q22	<p>In the pricing of a futures/forward contract, assets such as stocks & bonds, gold etc are</p> <p>a. consumption assets b. investment assets c. assets with an expiration d. depreciating assets Answer b.</p>
Q23	<p>A speculator with a bullish view on a security can</p> <p>a. buy stock futures b. buy index futures c. sell stock futures d. sell index futures Answer a.</p>
Q24	<p>The Rho of an option measures</p> <p>a. time decay of an option b. rate of change of the option price with respect to interest rate c. rate of change of the option price with respect to volatility of the underlying asset d. the change in relationship between the stock price and the option price Answer b.</p>
Q25	<p>Rolling the hedge forward in a futures contract means that</p> <p>a. keep all futures contracts open b. close one futures contract and take a position in a contract with a later delivery date c. delivery dates in a futures contract do not matter d. choose the same delivery date Answer b.</p>