

Fundamentals of Futures and Options Markets 8e INTERNATIONAL Version
Chapter 2 Mechanics of Futures Markets

1) Which of the following is true?

- A) Both forward and futures contracts are traded on exchanges
- B) Forward contracts are traded on exchanges, but futures contracts are not
- C) Futures contracts are traded on exchanges, but forward contracts are not
- D) Neither futures contracts nor forward contracts are traded on exchanges

Answer: C

2) Which of the following is NOT true?

- A) Futures contracts nearly always last longer than forward contracts
- B) Futures contracts are standardized; forward contracts are not
- C) Delivery or final cash settlement usually takes place with forward contracts; the same is not true of futures contracts
- D) Forward contracts usually have one specified delivery date; futures contract often have a range of delivery dates

Answer: A

3) In the corn futures contract a number of different types of corn can be delivered (with price adjustments specified by the exchange) and there are a number of different delivery locations. Which of the following is true?

- A) This flexibility tends increase the futures price
- B) This flexibility tends decrease the futures price
- C) This flexibility may increase and may decrease the futures price
- D) This flexibility has no effect on the futures price

Answer: B

4) A company enters into a short futures contract to sell 50,000 units of a commodity for 70 cents per unit. The initial margin is \$4,000 and the maintenance margin is \$3,000. What is the futures price per unit above which there will be a margin call?

- A) 78 cents
- B) 76 cents
- C) 74 cents
- D) 72 cents

Answer: D

5) A company enters into a long futures contract to buy 1,000 units of a commodity for \$60 per unit. The initial margin is \$6,000 and the maintenance margin is \$4,000. What futures price will allow \$2,000 to be withdrawn from the margin account?

- A) \$58
- B) \$62
- C) \$64
- D) \$66

Answer: B

6) One futures contract is traded where both the long and short parties are closing out existing positions. What is the resultant change in the open interest?

- A) No change
- B) Decrease by one
- C) Decrease by two
- D) Increase by one

Answer: B

7) Who initiates delivery in a corn futures contract?

- A) The party with the long position
- B) The party with the short position
- C) Either party
- D) The exchange

Answer: B

8) You sell one December futures contracts when the futures price is \$1,010 per unit. Each contract is on 100 units and the initial margin per contract that you provide is \$2,000. The maintenance margin per contract is \$1,500. During the next day the futures price rises to \$1,012 per unit. What is the balance of your margin account at the end of the day?

- A) \$1,800
- B) \$3,300
- C) \$2,200
- D) \$3,700

Answer: A

9) A hedger takes a long position in a futures contract on a commodity on November 1, 2012 to hedge an exposure on March 1, 2013. The initial futures price is \$60. On December 31, 2012 the futures price is \$61. On March 1, 2013 it is \$64. The contract is closed out on March 1, 2013. What gain is recognized in the accounting year January 1 to December 31, 2013? Each contract is on 1000 units of the commodity.

- A) \$0
- B) \$1,000
- C) \$3,000
- D) \$4,000

Answer: D

10) A speculator takes a long position in a futures contract on a commodity on November 1, 2012 to hedge an exposure on March 1, 2013. The initial futures price is \$60. On December 31, 2012 the futures price is \$61. On March 1, 2013 it is \$64. The contract is closed out on March 1, 2013. What gain is recognized in the accounting year January 1 to December 31, 2013? Each contract is on 1000 units of the commodity.

- A) \$0
- B) \$1,000
- C) \$3,000
- D) \$4,000

Answer: C

11) The frequency with which margin accounts are adjusted for gains and losses is

- A) Daily
- B) Weekly
- C) Monthly
- D) Quarterly

Answer: A

12) Margin accounts have the effect of

- A) Reducing the risk of one party regretting the deal and backing out
- B) Ensuring funds are available to pay traders when they make a profit
- C) Reducing systemic risk due to collapse of futures markets
- D) All of the above

Answer: D

13) Which entity in the United States takes primary responsibility for regulating futures market?

- A) Federal Reserve Board
- B) Commodities Futures Trading Commission (CFTC)
- C) Security and Exchange Commission (SEC)
- D) US Treasury

Answer: B

14) For a futures contract trading in April 2012, the open interest for a June 2012 contract, when compared to the open interest for Sept 2012 contracts, is usually

- A) Higher
- B) Lower
- C) The same
- D) Equally likely to be higher or lower

Answer: A

15) Clearing houses are

- A) Never used in futures markets and sometimes used in OTC markets
- B) Used in OTC markets, but not in futures markets
- C) Sometimes used in both futures markets and OTC markets
- D) Always used in both futures markets and OTC markets

Answer: C

16) A haircut of 20% means that

- A) A bond with a market value of \$100 is considered to be worth \$80 when used to satisfy a collateral request
- B) A bond with a face value of \$100 is considered to be worth \$80 when used to satisfy a collateral request
- C) A bond with a market value of \$100 is considered to be worth \$83.3 when used to satisfy a collateral request
- D) A bond with a face value of \$100 is considered to be worth \$83.3 when used to satisfy a collateral request

Answer: A

17) With bilateral clearing, the number of agreements between four dealers, who trade with each other, is

- A) 12
- B) 1
- C) 6
- D) 2

Answer: C

18) Which of the following best describes central clearing parties?

- A) Help market participants to value derivative transactions
- B) Must be used for all OTC derivative transactions
- C) Are used for futures transactions
- D) Perform a similar function to exchange clearing houses

Answer: D

19) Which of the following are cash settled?

- A) All futures contracts
- B) All option contracts
- C) Futures on commodities
- D) Futures on stock indices

Answer: D

20) A limit order

- A) Is an order to trade up to a certain number of futures contracts at a certain price
- B) Is an order that can be executed at a specified price or one more favorable to the investor
- C) Is an order that must be executed within a specified period of time
- D) None of the above

Answer: B