Question #1 of 8

Question ID: 1574463

The calculation of derivatives values is based on an assumption that:

A) investors are risk neutral.

B) arbitrage opportunities are exploited rapidly.

C) arbitrage opportunities do not arise in real markets.

Question #2 of 8

Question ID: 1574467

A net benefit from holding the underlying asset of a forward contract will:

A) increase the value of the forward contract during its life.

B) decrease the no-arbitrage forward price at initiation.

C) decrease the value of the forward contract at expiration.

Question #3 of 8

Question ID: 1574465

Costs of holding the underlying that are greater than benefits from holding the underlying will:

A) decrease the no-arbitrage forward price.

B) increase the no-arbitrage forward price.

C) have no effect on the no-arbitrage forward price.

Question #4 of 8

Question ID: 1574470

Other things equal, an increase in storage costs of the underlying asset will:

A) not affect the no-arbitrage forward price.

B) decrease the no-arbitrage forward price.

C) increase the no-arbitrage forward price.

Question #5 of 8

Question ID: 1574469

Which of the following is *most likely* to increase the no-arbitrage forward price of an asset?

A) Lower storage costs for a commodity.

B) Higher dividends from a stock.

C) Lower convenience yield for a commodity.

Question #6 of 8

Question ID: 1574464

It is possible to profit from arbitrage when there are no costs or benefits to holding the underlying asset and the forward contract price is:

A) equal to the future value of the spot price.

B) greater than the present value of the spot price.

C) less than the future value of the spot price.

Question #7 of 8

Question ID: 1574468

Other things equal, the no-arbitrage forward price of an asset will be higher if the asset has:

A) storage costs.

B) dividend payments.

C) convenience yield.

Question #8 of 8

Question ID: 1574466

For an underlying asset that has no holding costs or benefits, the no-arbitrage forward price at initiation of a forward contract is:

A) zero.

B) the future value of the spot price.

C) equal to the spot price.