Question #1 of 9

Question ID: 1574432

Which of the following statements regarding exchange-traded derivatives is *least* accurate? Exchange-traded derivatives:

A) are backed by a central clearinghouse.

B) are illiquid.

C) often trade in a physical location.

Question #2 of 9

Question ID: 1577417

An investor hedges her long position in her shares of Jaffrey Ltd. (Jaffrey) by taking a position in a forward contract where she agrees to sell the shares of Jaffrey. Which of the following statements best describes the investor's position regarding the forward contract?

A) The investor will have a gain on the forward contract when the price of the shares of Jaffrey falls.

B) The investor will have a gain on the forward contract when the price of the shares of Jaffrey rises.

C) The investor will have neither a gain nor a loss on the forward contract because her position is hedged.

Question #3 of 9

Question ID: 1577420

Josh Amie purchases a one-year interest rate forward contract based on the market reference rate (MRR). At settlement, the MRR has risen and Amie will have:

A) a loss on the forward contract.

B) a gain on the forward contract.

C) neither a loss nor a gain on the forward contract.

Question #4 of 9

Question ID: 1577416

Party A takes a position in a forward contract to purchase 200 shares of Squealer Inc. (Squealer) for $40 per share three months from now. Party B takes the opposite position to sell 200 shares of Squealer for $40 per share three months from now. The relevant discount rate is 5%.

The value of the forward contract to Party A at the initiation of the contract is *closest to*:

A) $7,900.

B) $0.

C) $8,000.

Question #5 of 9

Question ID: 1574433

A derivative is defined as a security that has a value:

A) based on another security, commodity, or index.

B) established outside an organized exchange.

C) stated in a contract between two counterparties.

Question #6 of 9

Question ID: 1577418

A forward contract specifying that only the gains and losses are exchanged at settlement is called a:

A) deliverable contract.

B) cash-settled contract.

C) netted contract.

Question #7 of 9

Question ID: 1577419

Which of the following statements regarding derivatives and/or cash market transactions is *most accurate*?

A) Investors can easily gain exposure to risk through derivatives but at a relatively high cost.

B) Initiating a derivatives position is most likely to have a greater impact on market prices of the underlying, relative to initiating an equivalent position in the underlying through a cash market transaction.

C) Transaction costs for a derivatives position are often lower than for the equivalent cash market trade.

Question #8 of 9

Question ID: 1574431

For exchange-traded derivatives, the role of the central clearinghouse is to:

A) maintain private insurance that can be used to provide funds if a trader defaults.

B) stabilize the market price fluctuations of the underlying commodity.

C) guarantee that all obligations by traders will be honored.

Question #9 of 9

Question ID: 1574434

In futures markets, the primary role of the clearinghouse is to:

A) reduce transaction costs by making contract prices public.

B) act as guarantor to both sides of a futures trade.

C) prevent arbitrage and enforce federal regulations.