

### Question #1 of 24

Question ID: 1577430

The lower and upper bounds on European options will always:

- A) be nonnegative.
  - B) include a present value calculation of the exercise price.
  - C) be positive.
- 

### Question #2 of 24

Question ID: 1577429

Which of the following statements about the difference in arbitrage in pricing forward commitments and options is correct?

- A) Both the forward buyer and the option buyer pay no cash upfront.
  - B) The forward buyer has an unlimited loss but the option buyer has a limited loss at maturity when the underlying is a stock.
  - C) Only options have upper and lower no-arbitrage price bounds.
- 

### Question #3 of 24

Question ID: 1574493

The time value of an option is *most accurately* described as:

- A) the amount by which the intrinsic value exceeds the option premium.
  - B) equal to the entire premium for an out-of-the-money option.
  - C) increasing as the option approaches its expiration date.
- 

### Question #4 of 24

Question ID: 1574487

Which of the following statements about moneyness is *most* accurate? When the stock price is:

- A) below the strike price, a call option is in-the-money.
  - B) above the strike price, a put option is in-the-money.
  - C) above the strike price, a put option is out-of-the-money.
- 

### Question #5 of 24

Question ID: 1574497

An increase in the riskless rate of interest, other things equal, will:

- A) decrease call option values and decrease put option values.
  - B) decrease call option values and increase put option values.
  - C) increase call option values and decrease put option values.
- 

### Question #6 of 24

Question ID: 1574494

The value of a put option at expiration is *most likely* to be increased by:

- A) a higher exercise price.
  - B) a lower risk-free interest rate.
  - C) higher volatility of the underlying asset price.
- 

### Question #7 of 24

Question ID: 1574485

An investor will exercise a European put option on a stock at its expiration date if the stock price is:

- A) less than the exercise price.
  - B) equal to the exercise price.
  - C) greater than the exercise price.
- 

### Question #8 of 24

Dividends or interest paid by the asset underlying a call option:

- A)** decrease the value of the option.
  - B)** increase the value of the option.
  - C)** have no effect on the value of the option.
- 

### Question #9 of 24

Question ID: 1574491

For a European style put option:

- A)** time value is equal to its market price minus its exercise value.
  - B)** intrinsic value is equal to its market price plus its exercise value.
  - C)** exercise value is equal to the underlying stock price minus its exercise price.
- 

### Question #10 of 24

Question ID: 1574488

A call option that is in the money:

- A)** has an exercise price less than the market price of the asset.
  - B)** has an exercise price greater than the market price of the asset.
  - C)** has a value greater than its purchase price.
- 

### Question #11 of 24

Question ID: 1574486

An investor holds two options on the same underlying stock, a call option with an exercise price of 25 and a put option with an exercise price of 30. If the market price of the stock is 27:

- A)** only one of the options is in the money.
- B)** both options are in the money.
- C)** neither option is in the money.

---

**Question #12 of 24**

Question ID: 1577427

Which of the following statements about the lower bound on a European put option is correct?

- A)** The lower bound can only be negative for deep out-of-the-money puts.
  - B)** The lower bound is always zero.
  - C)** The lower bound cannot exceed the difference between the present value of the exercise price and the underlying asset price.
- 

**Question #13 of 24**

Question ID: 1577426

A one-year European call option has an exercise price of  $X = \$500$ . At the time of the option's purchase, the underlying asset trades at  $S_0 = \$485$ , and the risk-free rate is  $r = 1.25\%$ . What is the no-arbitrage upper bound of this option in six months, if the underlying asset price is  $S_t = \$510$ ?

- A)** \$510.
  - B)** \$500.
  - C)** \$507.
- 

**Question #14 of 24**

Question ID: 1574503

An investor has bought a European put option and written a European call option. Other things equal, a decrease in the risk-free rate will increase the value of:

- A)** only one of these option positions.
  - B)** both of these option positions.
  - C)** neither of these option positions.
-

### Question #15 of 24

Question ID: 1574502

Other things equal, a short put position would become more valuable as a result of an increase in:

- A) the time to expiration.
  - B) the price of the underlying asset.
  - C) the volatility of the price of the underlying asset.
- 

### Question #16 of 24

Question ID: 1574490

At expiration, exercise value is equal to time value for:

- A) an in-the-money call or an out-of-the-money put.
  - B) an out-of-the-money call or an out-of-the-money put.
  - C) an out-of-the-money call or an in-the-money put.
- 

### Question #17 of 24

Question ID: 1574499

Which of the following will increase the value of a call option?

- A) An increase in the exercise price.
  - B) A dividend on the underlying asset.
  - C) An increase in volatility.
- 

### Question #18 of 24

Question ID: 1574496

Which of the following statements about long positions in put and call options is *most accurate*? Profits from a long call:

- A) and a long put are positively correlated with the stock price.
- B) are negatively correlated with the stock price and the profits from a long put are positively correlated with the stock price.

- are positively correlated with the stock price and the profits from a long put are negatively correlated with the stock price.
- 

**Question #19 of 24**

Question ID: 1574498

A decrease in the riskless rate of interest, other things equal, will:

- A) decrease call option values and decrease put option values.
  - B) increase call option values and decrease put option values.
  - C) decrease call option values and increase put option values.
- 

**Question #20 of 24**

Question ID: 1574492

The time value of a European call option with 30 days to expiration will *most likely* be:

- A) less than the current option premium if the option is currently in-the-money.
  - B) greater than the current option premium if the option is currently out-of-the-money.
  - C) equal to the intrinsic value if the exercise price is greater than the current spot price.
- 

**Question #21 of 24**

Question ID: 1574495

A call option's intrinsic value:

- A) decreases as the stock price increases above the strike price, while a put option's intrinsic value increases as the stock price decreases below the strike price.
  - B) increases as the stock price increases above the strike price, while a put option's intrinsic value decreases as the stock price decreases below the strike price.
  - C) increases as the stock price increases above the strike price, while a put option's intrinsic value increases as the stock price decreases below the strike price.
-

### Question #22 of 24

Question ID: 1574501

Compared to an otherwise identical European put option, one that has a longer time to expiration:

- A) must be worth more than the put that is nearer to expiration.
  - B) must be worth at least as much as the put that is nearer to expiration.
  - C) may be worth less than the put that is nearer to expiration.
- 

### Question #23 of 24

Question ID: 1574489

An option's intrinsic value is equal to the amount the option is:

- A) in the money, and the time value is the market value minus the intrinsic value.
  - B) in the money, and the time value is the intrinsic value minus the market value.
  - C) out of the money, and the time value is the market value minus the intrinsic value.
- 

### Question #24 of 24

Question ID: 1577428

The upper bound of a European put option is the:

- A) exercise price.
- B) difference between the present value of the exercise price and the underlying asset price.
- C) present value of the exercise price.