

### Question #1 of 25

Question ID: 1574458

Which of the following statements regarding a forward commitment is *least* accurate? A forward commitment:

- A) is a contractual promise. 
- B) can involve a stock index. 
- C) is not legally binding. 

#### Explanation

A forward commitment is a legally binding promise to perform some action in the future and can involve a stock index or portfolio.

(Module 69.2, LOS 69.c)

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### Question #2 of 25

Question ID: 1574444

A European call option on a stock has an exercise price of 42. On the expiration date, the stock price is 40. The value of the option at expiration is:

- A) positive. 
- B) negative. 
- C) zero. 

#### Explanation

For a call option, the value at expiration is zero if the price of the underlying is less than or equal to the exercise price. The holder will allow the option to expire unexercised.

(Module 69.2, LOS 69.b)

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### Question #3 of 25

Question ID: 1574435

If the margin balance in a futures account with a long position goes below the maintenance margin amount:

- A)** a deposit is required to return the account margin to the initial margin level. 
- B)** a margin deposit equal to the maintenance margin is required within two business days. 
- C)** a deposit is required which will bring the account to the maintenance margin level. 

**Explanation**

Once account margin (based on the daily settlement price) falls below the maintenance margin level, it must be returned to the initial margin level, regardless of subsequent price changes.

(Module 69.1, LOS 69.a)

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**Question #4 of 25**

Question ID: 1574443

At expiration, the value of a call option is the greater of zero or the:

- A)** underlying asset price minus the exercise value. 
- B)** exercise price minus the exercise value. 
- C)** underlying asset price minus the exercise price. 

**Explanation**

The value of a call option at expiration is its exercise value, which is  $\text{Max}[0, S - X]$ .

(Module 69.2, LOS 69.b)

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**Question #5 of 25**

Question ID: 1574441

An agreement that gives the holder the right, but not the obligation, to sell an asset at a specified price on a specific future date is a:

- A)** call option. 
- B)** put option. 
- C)** swap. 

**Explanation**

A put option gives the holder the right to sell an asset at a specified price on a specific future date. A call option gives the holder the right to buy an asset at a specified price on a specific future date. A swap is an obligation to both parties.

(Module 69.1, LOS 69.a)

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### Question #6 of 25

Question ID: 1574436

The settlement price for a futures contract is:

- A) the price of the last trade of a futures contract at the end of the trading day. 
- B) the price of the asset in the future for all trades made in the same day. 
- C) an average of the trade prices over a period at the end of a trading session. 

#### Explanation

The settlement price is calculated as the average trade price over a specific closing period at the end of the trading day. The length of the closing period is set by the exchange.

(Module 69.1, LOS 69.a)

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### Question #7 of 25

Question ID: 1574438

Which of the following statements about options is *most accurate*?

- A) The holder of a put option has the right to sell to the writer of the option. 
- B) The writer of a put option has the obligation to sell the asset to the holder of the put option. 
- C) The holder of a call option has the obligation to sell to the option writer if the stock's price rises above the strike price. 

#### Explanation

The holder of a put option has the right to sell to the writer of the option. The writer of the put option has the obligation to buy, and the holder of the call option has the right, but not the obligation to buy.

(Module 69.1, LOS 69.a)

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## Question #8 of 25

Question ID: 1574459

A financial instrument with a payoff that depends on a specified event occurring is *most accurately* described as:

- A) a default swap. 
- B) a contingent claim. 
- C) an option. 

### Explanation

Contingent claims are contracts with payoffs that depend on a specified event occurring. Options and credit default swaps are examples of contingent claims, but neither of these terms describes all contingent claims. (Module 69.2, LOS 69.c)

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## Question #9 of 25

Question ID: 1574448

A call option has an exercise price of \$120, and the stock price is \$105 at expiration. The expiration day value of the call option is:

- A) \$0. 
- B) \$15. 
- C) \$105. 

### Explanation

A call option has an expiration day value of  $\text{Max}(0, S - X)$ . Here, X is \$120 and S is \$105. Because the call option is *out of the money* at expiration, its value is zero.

(Module 69.2, LOS 69.b)

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## Question #10 of 25

Question ID: 1574453

An investor buys a call option that has an option premium of \$5 and an exercise price of \$22.50. The current market price of the stock is \$25.75. At expiration, the value of the stock is \$23.00. The net profit/loss of the call position is *closest* to:

- A) -\$4.50. 
- B) \$4.50. 

C) -\$5.00.



### Explanation

The option is in-the-money by \$0.50 (\$23.00 – \$22.50). The investor paid \$5.00 for the call option, thus the net loss is -\$4.50 (\$0.50 – \$5.00).

(Module 69.2, LOS 69.b)

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### Question #11 of 25

Question ID: 1574442

On the expiration date of a put option, if the spot price of the underlying asset is less than the exercise price, the value of the option is:

A) positive.



B) zero.



C) negative.



### Explanation

Put options are in the money (have positive value) at expiration if the spot price of the underlying asset is less than the exercise price, because the put option holder has the right to sell the asset for the higher exercise price. The value of an option cannot be negative; at expiration its value is the greater of zero or its intrinsic value.

(Module 69.2, LOS 69.b)

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### Question #12 of 25

Question ID: 1574451

Consider a call option with an exercise price of \$32. If the stock price at expiration is \$41, the value of the call option is:

A) \$0.



B) \$9.



C) \$41.



### Explanation

The call has a \$9 ( $\$41 - \$32$ ) value at expiration, because the holder of the call can exercise his right to buy the stock at \$32 and then sell the stock on the open market for \$41. The intrinsic value of a call at expiration is  $\text{Max}(0, S - X)$ .

(Module 69.2, LOS 69.b)

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### Question #13 of 25

Question ID: 1574455

Al Steadman receives a premium of \$3.80 for writing a put option with an exercise price of \$64. If the stock price at expiration is \$84, Steadman's profit or loss from the options position is:

- A) \$3.80. 
- B) \$16.20. 
- C) \$23.80. 

#### Explanation

The put option will not be exercised because it is out-of-the-money,  $\text{Max}(0, X - S)$ . Therefore, Steadman keeps the full amount of the premium, \$3.80.

(Module 69.2, LOS 69.b)

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### Question #14 of 25

Question ID: 1574454

Jimmy Casteel pays a premium of \$1.60 to buy a put option with an exercise price of \$145. If the stock price at expiration is \$128, Casteel's profit or loss from the options position is:

- A) \$1.60. 
- B) \$18.40. 
- C) \$15.40. 

#### Explanation

The put option will be exercised and has a value of  $\$145 - \$128 = \$17$  [ $\text{Max}(0, X - S)$ ]. Therefore, Casteel receives \$17 minus the \$1.60 paid to buy the option. The profit is \$15.40 (\$17 less \$1.60).

(Module 69.2, LOS 69.b)

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**Question #15 of 25**

Question ID: 1574452

Which of the following statements regarding call options is *most accurate*? The:

- A) call holder will exercise (at expiration) if the exercise price exceeds the stock price. 
- B) breakeven point for the buyer is the exercise price plus the option premium. 
- C) breakeven point for the seller is the exercise price minus the option premium. 

**Explanation**

The breakeven for the buyer and the seller is the exercise price plus the premium. The call holder will exercise if the market price exceeds the exercise price.

(Module 69.2, LOS 69.b)

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**Question #16 of 25**

Question ID: 1574447

A put option has an exercise price of \$65, and the stock price is \$39 at expiration. The expiration day value of the put option is:

- A) \$0. 
- B) \$26. 
- C) \$65. 

**Explanation**

A put option has an expiration day value of  $\text{Max}(0, X - S)$ . Here, X is \$65 and S is \$39.

(Module 69.2, LOS 69.b)

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**Question #17 of 25**

Question ID: 1574457

Basil, Inc., common stock has a market value of \$47.50. A put available on Basil stock has a strike price of \$55.00 and is selling for an option premium of \$10.00. The put is:

- A) out-of-the-money by \$2.50. 

**B)** in-the-money by \$7.50.



**C)** in-the-money by \$10.00.



### Explanation

The put allows a trader to sell Basil common stock for \$7.50 more than the current market value (\$55.00 – \$47.50). The trade is normally closed out with a cash settlement, but the trader could buy 100 shares for \$47.50 per share and immediately sell them to the option writer for \$55.00.

(Module 69.2, LOS 69.b)

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### Question #18 of 25

Question ID: 1574445

At expiration, the value of a European call option is:

**A)** equal to its intrinsic value.



**B)** equal to the asset price minus the present value of the exercise price.



**C)** less than that of an otherwise identical American call option.



### Explanation

The intrinsic value of a call, either European or American, at expiration is  $\text{Max}(0, S - X)$ , which is its intrinsic value. The asset price minus the present value of the exercise price can be negative, but options cannot have a negative value.

(Module 69.2, LOS 69.b)

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### Question #19 of 25

Question ID: 1574439

Credit default swaps are *least accurately* characterized as:

**A)** contingent claims.



**B)** insurance.



**C)** forward commitments.



### Explanation

Credit default swaps are contingent claims and not forward commitments because their payoff depends on a future event taking place. Credit derivatives are a form of insurance against a credit event.

(Module 69.1, LOS 69.a)

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### Question #20 of 25

Question ID: 1574449

A put option has an exercise price of \$80, and the stock price is \$75 at expiration. The expiration day value of the put option is:

- A) \$5. 
- B) \$0. 
- C) \$80. 

#### Explanation

A put option has an expiration day value of  $\text{Max}(0, X - S)$ . Here, X is \$80 and S is \$75.

(Module 69.2, LOS 69.b)

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### Question #21 of 25

Question ID: 1574446

A call option has a strike price of \$35 and the stock price is \$47 at expiration. What is the expiration day value of the call option?

- A) \$35. 
- B) \$0. 
- C) \$12. 

#### Explanation

A call option has an expiration day value of  $\text{MAX}(0, S - X)$ . Here, X is \$35 and S is \$47.

(Module 69.2, LOS 69.b)

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### Question #22 of 25

Question ID: 1574456

Ed Verdi has a long position in a European put option on a stock. At expiration, the stock price is greater than the exercise price. The value of the put option to Verdi on its expiration date is:

- A) zero. 
- B) negative. 
- C) positive. 

#### Explanation

At expiration, the value to the holder (long position) of a put option on a stock is the greater of zero or the exercise price minus the stock price. If the stock price is greater than the exercise price, the value of a put option to the holder is zero and the holder will allow the option to expire unexercised. (Module 69.2, LOS 69.b)

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#### Question #23 of 25

Question ID: 1574440

In a credit default swap (CDS), the buyer of credit protection:

- A) makes a series of payments to a credit protection seller. 
- B) exchanges the return on a bond for a fixed or floating rate return. 
- C) issues a security that is paid using the cash flows from an underlying bond. 

#### Explanation

In a credit default swap (CDS), the buyer of credit protection makes a series of payments to a credit protection seller. The credit protection seller promises to make a fixed payment to the buyer if an underlying bond or loan experiences a credit event, such as a default. In a total return swap, the buyer of credit protection exchanges the return on a bond for a fixed or floating rate return. A security that is paid using the cash flows from an underlying bond is known as a credit-linked note.

(Module 69.1, LOS 69.a)

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#### Question #24 of 25

Question ID: 1574450

Mosaks, Inc., has a put option with an exercise price of \$105. If Mosaks stock price is \$115 at expiration, the value of the put option is:

- A) \$0. 

B) \$10.



C) \$105.



**Explanation**

The put has a value of \$0 because it will not be exercised. Put value is  $\text{Max}(0, X - S)$ .

(Module 69.2, LOS 69.b)

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**Question #25 of 25**

Question ID: 1574437

A futures investor receives a margin call. If the investor wishes to maintain her futures position, she must make a deposit that restores her account to the:

A) maintenance margin.



B) daily margin.



C) initial margin.



**Explanation**

In futures trading, a margin call requires the investor to restore the account to the initial margin level or close the position.

(Module 69.1, LOS 69.a)