Question #1 of 7

Question ID: 1577997

When the carrying cost exceeds the benefit of holding commodity:

A) the spot price is below the forward price.

B) there is an upward sloping forward curve.

C) the forward curve experiences backwardation.

Explanation

When the carrying costs exceed the benefit of holding a commodity, the yield curve experiences backwardation, which is a downward sloping forward curve, and the spot price is above the forward price. When the benefits of holding the commodity exceed the carrying cost, the forward curve experiences contango, which is the opposite of backwardation.

(Module 82.1, LOS 82.b)

Question #2 of 7

Question ID: 1577198

If a commodity futures market is in backwardation:

A) the commodity has a high convenience yield.

B) a long futures position will have a negative roll yield.

C) the futures price is of the commodity is higher than the spot price.

Explanation

Backwardation refers to a situation where the futures price is less than the spot price for a commodity. Because commodities have no monetary yield, only a convenience yield greater than the opportunity (interest) cost and storage costs of holding the commodity can lead to backwardation. When a futures market is in backwardation, the roll yield is positive because the futures price moves towards the spot price over the life of the contract.

(Module 82.1, LOS 82.b)

Question #3 of 7

Question ID: 1577996

The convenience yield of a commodity is *best* described as:

A) a benefit that reduces the forward price.

B) being directly related to the commodity's inventory levels.

C) a cash benefit from holding a physical commodity.

Explanation

The convenience yield is a non-cash benefit that comes from holding a physical commodity. Because the owner receives the convenience of access to the commodity, the convenience yield reduces the commodity's forward price. The convenience yield is usually inversely related to inventory for that commodity.

(Module 82.1, LOS 82.b)

Question #4 of 7

Question ID: 1576517

Funds that invest in specific commodity sectors such as oil and gas or precious metals are *best* described as:

A) managed futures funds.

B) sector funds.

C) specialized funds.

Explanation

Specialized funds focus on specific commodities such as oil and gas, grains, precious metals, or industrial metals. Sector funds restrict investments to a particular sector of the market, such as energy or health care. Some managed futures funds may concentrate on specific sectors (e.g., agricultural commodities), while others may be more diversified.

(Module 82.1, LOS 82.b)

Question #5 of 7

Question ID: 1577995

Which of the following types of alternative investment is *most likely* to provide steady cash flows?

A) Farmland.

B) Timberland.

C) Raw land.

Explanation

Farmland provides the steadiest cash flows compared to timberland and raw land. Farmland can generate cash flows from leasing the land or selling the crop each year. Timberland provides cash flows, but owners have more discretion over the timing; they can choose to let the timber grow or harvest it for sale. Raw land does not generate any current cash flow.

(Module 82.1, LOS 82.a)

Question #6 of 7

Question ID: 1577998

Which of the following is *least likely* to be a benefit of investing in commodities?

A) Current income. ✓

B) Diversification. ✗

C) Inflation hedge. ✗

Explanation

Natural resources do not generate current income from holding the asset; they generate their income from the asset's sales proceeds. Natural resources have a low correlation with equity markets and can provide diversification benefits. Because commodity prices tend to be positively correlated with inflation rates, holding commodities can act as a hedge against inflation risk.

(Module 82.1, LOS 82.c)

Question #7 of 7

Question ID: 1576516

If a commodity's convenience yield is close to zero, the futures market for that commodity is *most likely*:

A) in contango. ✓

B) in backwardation. ✗

C) at fair value. ✗

Explanation

Futures price ≈ Spot price (1 + risk-free rate) + storage costs – convenience yield. If the convenience yield is close to zero, it is likely that the futures price exceeds the spot price, i.e., the market for the commodity is in contango.

(Module 82.1, LOS 82.b)