Question #1 of 8

Question ID: 1577423

Compared to cash markets, which factor is both an advantage and disadvantage of derivative instruments?

A) Market efficiency.

B) Short sales.

C) Liquidity.

Question #2 of 8

Question ID: 1574461

A corporation that employs hedge accounting and uses an interest rate swap to offset changes in the value of fixed rate bond liability is said to be employing a:

A) net investment hedge.

B) cash flow hedge.

C) fair value hedge.

Question #3 of 8

Question ID: 1577424

In the context of determining option prices, which factor is not directly observable?

A) Volatility of the underlying.

B) Exercise price.

C) Risk-free rate.

Question #4 of 8

Question ID: 1574462

Hedge accounting with a net investment hedge *most likely* refers to a company that is using derivatives to reduce the volatility of:

A) the value of a foreign subsidiary.

B) its net working capital.

C) a balance sheet liability.

Question #5 of 8

Question ID: 1574460

A corporation that employs hedge accounting and uses derivatives to reduce the volatility of the value of its inventory is *most likely* using a:

A) cash flow hedge.

B) fair value hedge.

C) net investment hedge.

Question #6 of 8

Question ID: 1577425

The most appropriate action an owner of common stock can take to hedge the stock's price risk while retaining its upside potential is to:

A) sell calls.

B) buy calls.

C) buy puts.

Question #7 of 8

Question ID: 1577422

Which of the following statements regarding the use of derivatives is *most accurate*?

A) A portfolio manager can decrease exposure to the risk and return of a market index.

B) The issuer of a fixed-rate obligation can increase risk exposure by converting to a floating-rate obligation.

C) A manufacturer can hedge the exchange risk of anticipated receipts or payments.

Question #8 of 8

Question ID: 1577421

To acquire the upside potential of an asset's price movement while maintaining downside protection, without holding the underlying asset, an investor should buy:

A) a call option on the asset.

B) a put option on the asset.

C) both a call option and a put option on the asset.