

218- Futures & Options

1. What is the economic function of the derivative market?

- a. Enhancing savings accounts
- b. Reducing market liquidity
- c. Risk management, hedging, speculation, and arbitrage
- d. Encouraging excessive borrowing

Answer: c. Risk management, hedging, speculation, and arbitrage

2. Which of the following is NOT a type of derivative?

- a. Forwards
- b. Options
- c. Bonds
- d. Swaps

Answer: c. Bonds

3. What is the primary purpose of spread trading in derivative markets?

- a. Increasing market volatility
- b. Speculation on individual stocks
- c. Hedging against market risks
- d. Ignoring market trends

Answer: c. hedging against market risks

4. In the context of derivatives, what does MTM stand for?

- a. Market Terminology Measurement
- b. Mark to Market
- c. Money-Time Matrix
- d. Market Timing Mechanism

Answer: b. Mark to Market

5. What is the economic function of the commodity market in derivative trading?

- a. Speculation on interest rates
- b. Hedging against currency risks
- c. Evolution of commodity trading
- d. Reducing stock market volatility

Answer: c. Evolution of commodity trading

6. What does "ITM" stand for in option contract moneyless?

- a. In The Market
- b. In The Money
- c. Interest to Market
- d. Internal Trading Mechanism

Answer: b. In The Money

7. How is the moneyless of an option contract determined?

- a. Based on the underlying asset
- b. By the contract size
- c. Through random selection
- d. By market speculation

Answer: a. Based on the underlying asset

8. What is the primary purpose of Mark to Market (MTM) in derivatives?

- a. Predicting future market trends
- b. Adjusting the value of a position to reflect the current market value
- c. Assessing long-term investment options
- d. Ignoring market fluctuations

Answer: b. adjusting the value of a position to reflect the current market value

9. What is the primary function of delivery specifications in futures contracts?

- a. Determining contract size
- b. Establishing moneyless
- c. Facilitating options trading
- d. Defining the terms for physical delivery of the underlying asset

Answer: d. defining the terms for physical delivery of the underlying asset

10. How is margin accounted for in the context of derivatives?

- a. As a fixed fee paid upfront
- b. As a percentage of the contract value
- c. Ignored in derivative trading
- d. As a discount on future profits

Answer: b. as a percentage of the contract value

11. What factors affect option prices?

- a. Option Payoffs and the Black-Scholes formula
- b. Only the market trend
- c. Interest rate fluctuations
- d. Historical market data

Answer: a. Option Payoffs and the Black-Scholes formula

12. Which pricing model is commonly used for options?

- a. The Random Walk Model
- b. The Black-Scholes Model
- c. The Fixed Rate Model
- d. The Mark to Market Model

Answer: b. The Black-Scholes Model

13. How are futures priced according to the cost of carry model?

- a. Based on historical prices
- b. As a discount on future profits
- c. Factoring in the cost of holding the asset until delivery
- d. Independent of market trends

Answer: c. factoring in the cost of holding the asset until delivery

14. What does the term "Options Greeks" refer to?

- a. Greek letters used in options contracts
- b. Risk management strategies
- c. Factors affecting option prices
- d. Ancient Greek financial theories

Answer: c. Factors affecting option prices

15. How is Delta calculated in Options Greeks?

- a. Change in option price per 1% change in the underlying asset
- b. Change in option price per unit change in the underlying asset
- c. Total value of options contracts
- d. The ratio of option price to the underlying asset

Answer: b. Change in option price per unit change in the underlying asset

16. What is the purpose of hedging with futures in risk management?

- a. Maximizing risk exposure
- b. Ignoring market fluctuations
- c. Reducing risk by offsetting potential losses
- d. Promoting excessive speculation

Answer: c. Reducing risk by offsetting potential losses

17. What is the operational efficiency of options and futures in the Indian Stock Market?

- a. Inhibits market structure
- b. Improves market structure
- c. Has no impact on market structure
- d. Promotes excessive speculation

Answer: b. Improves market structure

18. How is the fair value of futures and options prices determined?

- a. Based on speculative trading
- b. Through random selection
- c. By market manipulation
- d. Through interactions between spot equity trading and derivatives

Answer: d. through interactions between spot equity trading and derivatives

19. What is an Index in the context of options and futures trading?

- a. A financial institution
- b. A measure of the market performance
- c. A specific stock trading strategy
- d. An economic indicator

Answer: b. a measure of the market performance

20. What conditions are necessary to improve the market structure in India, according to the text?

- a. Increased market volatility
- b. A reduction in market participants
- c. Regulatory interventions and policy measures
- d. Promoting excessive speculation

Answer: c. Regulatory interventions and policy measures