69 FORWARD COMMITMENT AND CONTINGENT CLAIM FEATURES & INSTRUMENTS

1. 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.

2. 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.

3. 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.

4. 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.

5. 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.

6 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.

7. 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.

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

(A) a default swaps.

(B) a contingent claim.

(C) an option.

9. 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.

10. 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.

11. 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.

12. 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.

13. 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.

14. 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.

15. 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.

16. 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.

17. 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.

18. 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.

19. Credit default swaps are least accurately characterized as:
    (A) contingent claims.
    (B) insurance.
    (C) forward commitments.

20. 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.

21. 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.

22. 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.

23. 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.

24. 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.

25. 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.