72 PRICING & VALUATION OF FORWARD CONTRACTS & FOR AN UNDERLYING WITH VARYING MATURITIES

1. For an underlying asset that has no holding costs or benefits, the value of a forward contract to the long during the life of the contract is the:

   (A) spot price minus the present value of the forward price.

   (B) difference between the spot price and the forward price.

   (C) present value of the difference between the spot price and the forward price.

2. The most likely use of a forward rate agreement is to:

   (A) lock in an interest rate for future borrowing or lending.

   (B) exchange a floating-rate obligation for a fixed-rate obligation.

   (C) obtain the right, but not the obligation, to borrow at a certain interest rate.

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3. The value of a forward or futures contract is:

   (A) specified in the contract.

   (B) typically, zero at initiation.

   (C) equal to the spot price at expiration.

4. At time t, prior to its settlement date at time T, the value V_t of a long forward with a price of F will be related to the spot price, S, of an asset that has a zero net cost of carry by:

   (A) $V_t = F_0(T) - S_t \, (1 + Rf)^{-(T-t).}$

   (B) $V_t = (S_t - F_0(T)) \, (1 + Rf)^{-(T-t).}$

   (C) $V_t = S_t - F_0(T) \, (1 + Rf)^{-(T-t).}$