

73**PRICING AND VALUATION OF FUTURES
CONTRACTS**

1. Long futures contracts may be preferred to equivalent forward contracts without central clearing when interest rates are:
 - (A) negatively correlated with the price of the underlying.
 - (B) positively correlated with the price of the underlying.
 - (C) uncorrelated with the price of the underlying.

2. Bea Moran wants to establish a long derivatives position in a commodity she will need to acquire in six months. Moran observes that the six-month forward price is 45.20 and the six-month futures price is 45.10. This difference most likely suggests that for this commodity:
 - (A) long investors should prefer futures contracts to forward contracts.
 - (B) futures prices are negatively correlated with interest rates.
 - (C) there is an arbitrage opportunity among forward, futures, and spot prices.

3. For a futures contract, the adjustment for the change in settlement price from one day to the next will result in:
 - (A) no change in contract price but a change in contract value.
 - (B) a change in contract price but no change in contract value.
 - (C) changes in both the contract price and contract value.

4. Long forward contracts without central clearing may be preferred to equivalent futures contracts when interest rates are:
 - (A) negatively correlated with the price of the underlying.
 - (B) positively correlated with the price of the underlying.
 - (C) uncorrelated with the price of the underlying.

5. If the price of a forward contract is greater than the price of an identical futures contract, the most likely explanation is that:
 - (A) the futures contract requires daily settlement and the forward contract does not.
 - (B) the forward contract is more liquid than the futures contract.
 - (C) the futures contract is more difficult to exit than the forward contract.

6. Compared to an interest rate futures contract, an otherwise equivalent forward rate agreement will:
- (A) have greater volatility.
 - (B) have greater payments for a given decrease in interest rates.
 - (C) exhibit greater convexity.



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