

74**PRICING & VALUATION OF
INTEREST RATES & OTHER SWAPS**

1. Which of the following is typically equal to zero at the initiation of an interest rate swap contract?
 - (A) Its value.
 - (B) Its price.
 - (C) Neither its value nor its price.

2. An investor could best replicate the position of the floating rate payer in a swap by:
 - (A) borrowing at a floating rate and entering a series of zero-value FRAs.
 - (B) borrowing at a floating rate and buying a fixed-rate bond.
 - (C) borrowing at a fixed rate and entering a series of zero-value FRAs.

3. The price of a fixed-for-floating interest rate swap contract:
 - (A) may vary over the life of the contract.
 - (B) is established at contract initiation.
 - (C) is directly related to changes in the floating rate.

4. For a series of forward contracts to replicate a swap contract, the forward contracts must have:
 - (A) values at swap initiation that sum to zero.
 - (B) values at swap expiration that sum to zero.
 - (C) values at swap initiation that are equal to zero.

