Commodity & Derivatives Market

1.The process of protecting oneself against future price changes by shifting some or all of the risk to someone else is called:
a. speculating
b. investing
c. hedging
d. gambling

2. People who bet on price changes in the hope of making a profit are called:
a.speculators
b. hedgers
c. investors
d. gamblers

3. Borrowing a security and selling it with the hope of buying it back later at a cheaper price is called
a. leveraging.
b. short-selling.
c. investing.
d. gambling.

4. An individual who expects that prices for some asset will rise is said to take a
a. long position
b. short position
c. 'worst case scenario'
d. the current spot position

5. The method whereby an investor assumes that futures and their spot prices move together and then considers how to hedge depending on whether spot prices will move up or down in the future is called
a. long position.
b. short position.
c. 'worst case scenario'.
d. the current spot position.

6. The differential between the spot price and the futures price is known as
a. the spread.
b. the basis.
c. the differential rate.
d. the Gap.

7. F(t)=futures contract price purchased at time t for delivery date ⍰; S(t) = spot price at time t; R s = the yield on a short-term instrument; R L = the yield on a long-term instrument. The cost-of-carry can be measured for example as

a. F(t) + (R s – R L)(- t)/360 (F(t))
b. (R s – R L)((- t)/360)S(t)
c. S(t) + (R s – R L)(- t)(360)S(t)
d. (R s – R L)((- t)/360))

8. The right but not the obligation to buy an asset at a particular price during a stipulated period is called a

a. Call option
b. Put option
c. Strike price
d. Long option

9. The right but not the obligation to sell an asset at a particular price during a stipulated period is called a
a. Call option
b. Put option
c. Strike option
d. Long option

10.Which of the following is the class of derivative designed to separate and then transfer the risk of default on a debt that may arise from a borrower failing to make required payments?
a) Property Derivative
b) Interest Rate Derivative
c) Credit Derivative
d) Commodity Derivative

11. Which of the following is the class of derivative where the underlying assets are products like precious metals, agro products, energy products, etc?
a) Freight Derivative
b) Inflation Derivative
c) Commodity Derivative
d) Interest Rate Derivative

12. Which of the following is the class of derivative which refers to an over-the-counter and exchange-traded derivative that is used to transfer inflation risk from one counterparty to another?
a) Freight Derivative
b) Inflation Derivative
c) Weather Derivative
d) Interest Rate Derivative

13.Which of the following is the class of derivative where these financial instruments can be used by organizations or individuals as part of a risk management strategy to reduce risk associated with adverse conditions?
a) Freight Derivative

b) Property Derivative
c) Commodity Derivative
d) Weather Derivative

14.Which of the following group of derivatives contracts are traded directly between two parties, without going through an exchange or other intermediary?
a) Exchange-traded derivatives
b) Common-market derivatives
c) Over-the-counter derivatives
d) Forwards-exchange derivatives

15. Which of the following is not a credit rating agency?
a) CRISIL
b) ICRA
c) NIKKEI
d) CARE

16. Which of the following words does not belong to the stock exchange?
a) NAV
b) NSE
c) IPO
d) KPO

17. A dollar increase in stock price would lead to _____in the put option's value of _____than one dollar.
a) an increase, more
b) a decrease, less
c) an increase, either less or more
d) a decrease, more

18.The price that the buyer of a call option pays to acquire the option is called the
a) strike price.
b) exercise price.
c) execution price
d) premium.

19.The current market price of a share of AT&T stock is $50. If a call option on this stock has a strike price of $45, the call
a) is out of the money.
b) is in the money.
c) sells for a higher price than if the market price of AT&T stock is $40.
d) is in the money and sells for a higher price than if the market price of AT&Tstock is $40

20.167.Which of the following statements is false?

a) Specialists earn income from commissions and spreads in stock prices.
b) Specialists cannot trade for their own accounts.
c) Specialists stand ready to execute at least a minimum number of market
d) Specialists run the limit order book.

21.Six months ago, Esmeralda bought Groover Company stock at $60 per share. Today, the stock sells for $72 per share. Esmeralda likes the long-term prospects for Groover stock, but wants some protection against price decreases. Which of the following orders is the best way for Esmeralda to participate in future price increases and simultaneously ensure a minimum profit of $10 per share?
a) A limit sell order, limit price = $70.
b) A stop sell order, stop price = $70.
c) A stop buy order, stop price = $62.
d) A limit sell order, limit price = $82..

22.Which type of underwriting arrangement is riskiest to the underwriter?
a) Best effort.
b) Standby commitment.
c) Firm commitment.
d) Rights issue.

23.Which of the following is also known as the Big Board?
a) New York Stock Exchange.
b) American Stock Exchange.
c) London Stock Exchange.
d) Tokyo Stock Exchange. 1).

24.Markets in which derivatives are traded, are classified as which of the following?
a) assets backed market
b) cash flow backed markets
c) mortgage backed markets
d) derivative securities markets

25.Which of the following is the situation in which large portion of majority is borrowed
from broker of investor?
a) future investment
b) forward investment
c) leveraged investment
d) non-leveraged investment