

MULTIPLE CHOICE QUESTIONS FOR MCOM (MC4C14)**FINANCIAL DERIVATIVES & RISK MANAGEMENT**

1. risk is a loss may occur from the failure of another party to perform according to the terms of a contract?
 - a) Credit
 - b) Currency
 - c) Market
 - d) Liquidity
2. Financial derivatives includes?
 - a) Stock
 - b) Bonds
 - c) Future
 - d) None of these
3. By hedging a portfolio ; a bank manager
 - a) Reduces interest rate risk
 - b) Increases re investment risk
 - c) Increases exchange rate risk
 - d) None of these
4. A long contract requires that the investor
 - a) Sell securities in the future
 - b) Buy securities in the future
 - c) Hedge in the future
 - d) Close out his position in the future
5. The disadvantage of swaps is that they
 - a) Lack of liquidity
 - b) Suffer from default risk
 - c) Both A & B
 - d) B only
6. Hedging by buying an option
 - a) Limits gain
 - b) Limits losses
 - c) Limits gain & losses
 - d) Has no limit on losses
7. All other things held constant premium on options will increase when the
 - a) Exercise price increases
 - b) Volatility of the underlying assets fails
 - c) Term to maturity increases
 - d) Both B & C

8. An option allowing the owner to sell an asset at a future date is a
 - a) Put option
 - b) Call option
 - c) Forward option
 - d) Future contract
9. Composite value of traded stocks group of secondary market is classified as
 - a) Stock index
 - b) Primary index
 - c) Stock market index
 - d) Limited liability index
10. is the minimum amount which must be remained in a margin account
 - a) Maintenance margin
 - b) Variation margin
 - c) Initial margin
 - d) None of these
11. The number of future contract outstanding is called?
 - a) Liquidity
 - b) Float
 - c) Volume
 - d) Turnover
12. The amount paid for an option is the
 - a) Strike price
 - b) Discount
 - c) Premium
 - d) Yield
13. Futures contracts are more successful than interest rate forward contracts because they :
 - a) are less liquid
 - b) have greater default risk
 - c) are more liquid
 - d) have an interest rate tied to the discount rate
14. The payoffs for financial derivatives linked to
 - a) Securities that will be issued in the future
 - b) The volatility of interest rates
 - c) previously issued securities
 - d) none of the above.
15. Which of the following is not a problem with an interest rate forward contract?
 - a) Low interest rate
 - b) default risk
 - c) lack of liquidity
 - d) finding a counterparty

Answer key : 1.(a). 2.(c). 3 .(a). 4.(b). 5.(c). 6.(b). 7.(c). 8.(a). 9.(c). 10.(c). 11.(a). 12.(c)
13. (c) 14. (c) 15. (a)