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 volatality 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)