Futures Markets

1. Over the last 15 years, most of the growth in the number of contracts traded on the Chicago Board of Trade has come in the _______.

a.

metals

b.

agricultures

c.

financials

d.

commodities

2. A person with a long position in a commodity futures contract wants the price of the commodity to ______.

a.

decrease substantially

b.

increase substantially

c.

remain unchanged

d.

increase or decrease substantially

3. If an asset price declines, the investor with a ___ is exposed to largest potential loss.

a.

call option

b.

put option

c.

long futures contract

d.

short futures contract

4. The clearing corporation has a net position equal to ______.

a.

the open interest

b.

the open interest times two

c.

the open interest divided by two

d.

zero

5. The S&P500 index futures contract is an example of a(n) ______ delivery contract. The pork bellies contract is an example of a(n) ______ delivery contract.

a.

cash, cash

b.

cash, actual

c.

actual, cash

d.

actual, actual

6. The CME weather derivatives have payoffs that depend on _____ .

a.

the number of cloudy days for a specific city in a given month

b.

the number of inches of rain for a specific city in a given month

c.

the number of degree-days by which the temperature in a region differs from 65 degrees Fahrenheit

d.

none of the above

7. Synthetic stock positions are commonly used by ______ because of their ______.

a.

market timers, lower transaction cost

b.

banks, lower risk

c.

wealthy investors, tax treatment

d.

all of the above

8. The Fridays with simultaneous expiration of S&P index futures, S&P index options and options on some individual stocks are commonly called the _______.

a.

mad minutes

b.

trifectas

c.

happy hours

d.

triple-witching hours

9. A ______ contract calls for future delivery of an asset at a currently agreed-upon price.

a.

forward

b.

futures

c.

both a and b

d.

none of the above

10. An investor who is hedging a corporate bond portfolio using a T-bond futures contract is said to have a(n) _______.

a.

arbitrage

b.

cross-hedge

c.

over-hedge

d.

spread-hedge

11. The open interest on silver futures at a particular time is the number of __________.

a.

all silver futures outstanding contracts

b.

outstanding silver futures contracts for a particular delivery month

c.

silver futures contracts traded during the day

d.

silver futures contracts traded the previous day

12. Futures and options are similar in all of the following ways except ________________.

a.

expiration dates are standardized

b.

deliverable quantities are standardized

c.

the owner is not obligated to proceed with the transaction

d.

All of the above are similarities between futures and options

13. Futures and forward contracts differ in all of the following ways except ________________.

a.

futures expiration dates are standardized

b.

forwards may have non-standard deliverable quantities

c.

forwards are generally not "marked to market"

d.

All of the above are differences between futures and options

14. Futures are widely used for ______________.

a.

hedging the purchase price of assets

b.

hedging the sale price of assets

c.

speculation

d.

All of the above

15. The fact that the exchange is the counter-party to every futures contract issued is important because it eliminates __________ risk.

a.

market

b.

credit

c.

interest rate

d.

basis

16. Which of the following is not a category in which futures are actively traded?

a.

metals and minerals

b.

agricultural commodities

c.

foreign currencies

d.

Futures are traded in all of the above categories

17. A wheat farmer should __________ in order to reduce his exposure to risk associated with fluctuations in wheat prices.

a.

sell wheat futures

b.

buy wheat futures

c.

buy a contract for delivery of wheat now, and sell a contract for delivery of wheat at harvest time

d.

sell wheat futures if the basis is currently positive and buy wheat futures if the basis is currently negative

18. Exchange trading of financial futures first took place in ________.

a.

1955

b.

1965

c.

1975

d.

1985

19. You take a long position in a futures contract of one maturity and a short position in a contract of a different maturity, both on the same commodity. This is called __________.

a.

a cross hedge

b.

a reversing trade

c.

a spread position

d.

none of the above

20. Interest rate futures contracts exist for all of the following except __________.

a.

Federal funds

b.

Euro-marks

c.

banker's acceptances

d.

repurchase agreements

21. Initial margin is usually set in the region of ________ of the total value of a futures contract.

a.

5%-15%

b.

10%-20%

c.

15%-25%

d.

20%-30%

22. Margin must be posted by ________.

a.

buyers of futures contracts

b.

sellers of futures contracts

c.

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