Ans 3) Futures vs Spot Contracts:

(i) Future contracts are contracts that are made to effect transaction of some "underlying" at some time in the future. The amount of transaction is decided upon at the time of making of contract. The trading is standardized and the counterparty risk is less.

Spot Contracts involve immediate buying and selling at spot rate of the underlying. It is highly non-standardized and counterparty risk is higher.

(ii) The commodity to be exchanged is referred to as the "underlying". For a futures contract, traders can take either of the two positions: long or short. The one that is willing to buy the underlying at a certain rate in the future is said to be in a long position and the one who is who is willing to sell is said to be in a short position.

The prices are fixed. Some margin has to be deposited as collateral which can be in the form of interest-earning assets like Treasury Bills.

(iii) Commodity exchange plays an important role in ensuring the smooth and efficient operation of the market. It acts as an intermediary between buyers and sellers, providing a centralized platform for the clearing and settlements of futures contracts. It acts as a guarantor, assuming the risk of default by either party involved in trade.