Answers to Simple Questions

1. **What is leverage in forex trading?**
   → Leverage allows traders to control a larger position in the market with a small amount of capital (margin).
2. **What does 1:100 leverage mean?**
   → It means that for every $1 in your account, you can control $100 in the market.
3. **If you deposit $200 with a 1:100 leverage, how much can you control in the market?**
   → $200 × 100 = **$20,000**
4. **What is the formula to calculate leverage?**
   → **Leverage = Total Trade Size ÷ Margin Required**
5. **True or False: Leverage allows traders to control a larger position with a smaller amount of capital.**
   → **True**
6. **What is margin in forex trading?**
   → Margin is the amount of money required to open and maintain a leveraged position.
7. **If you have $500 in your account and use 1:100 leverage, how much is your total trade size?**
   → $500 × 100 = **$50,000**
8. **How much margin is required to trade 1 lot (100,000 units) with 1:100 leverage?**
   → 100,000 ÷ 100 = **$1,000**
9. **Does leverage increase both profit and risk?**
   → **Yes**
10. **What happens if the price moves against you when using high leverage?**
    → You can lose your capital quickly because losses are also magnified.

Answers to Hard Questions

1. **If a trader has $750 in their account and uses 1:100 leverage, what is the maximum position size they can control?**
   → $750 × 100 = **$75,000**
2. **If you want to trade 2 lots (200,000 units) of EUR/USD with 1:100 leverage, how much margin do you need?**
   → 200,000 ÷ 100 = **$2,000**
3. **A trader deposits $1,200 and uses 1:100 leverage. He makes a 5% profit on the total trade size. How much profit does he make?**
   → **Total trade size** = $1,200 × 100 = $120,000
   → **Profit** = 5% of $120,000 = **$6,000**
4. **A trader deposits $2,000, and after using 1:100 leverage, the price moves against him by 2%. How much does he lose?**
   → **Total trade size** = $2,000 × 100 = $200,000
   → **Loss** = 2% of $200,000 = **$4,000** (meaning he loses more than his deposit and could face a margin call).
5. **If a broker offers 1:500 leverage instead of 1:100, how much margin is required to control $100,000 in the market?**
   → 100,000 ÷ 500 = **$200**
6. **A trader has $5,000 in their account and takes a leveraged position of $500,000. What leverage ratio is the trader using?**
   → **Leverage = Total Trade Size ÷ Margin Required**
   → 500,000 ÷ 5,000 = **1:100**
7. **Why do brokers require margin even when offering high leverage?**
   → To ensure traders have enough funds to cover potential losses and to protect themselves from negative balances.

8. **What are the risks of using too much leverage in forex trading?**
   → Higher risk of margin calls, quick capital loss, increased emotional trading, and potential account wipeout.
9. **If leverage increases both profit and risk, how can a trader manage risk effectively?**
   → By using **stop-loss orders, proper position sizing, risk-reward ratios, and trading with a disciplined strategy.**
10. **Explain why professional traders use lower leverage despite having access to high leverage.**
   → Because they focus on **risk management**, **capital protection**, and **consistent profits**, rather than gambling with high risk.
