Lesson #12 Quiz
Graded Quiz • 30 min
Due Dec 7, 4:59 PM +09
Congratulations! You passed!
TO PASS 80% or higher

Keep Learning

GRADE

88.88%

Lesson #12 Quiz

LATEST SUBMISSION GRADE

88.88%

1.
Question 1
What is the effect of traders storing grain to wait for higher prices?

1 / 1 point

It is essential in preventing grain shortages.

Traders are able to monopolize the market.

Most shortages could have been prevented if traders had not speculated on grain prices.

Most grain ends up getting moldy in storage.

Correct

If grain were not stored, it would only be accessible immediately after the harvest. This ends up accommodating supply and demand.

2.

Question 2

In commodities trading, what is the role of forwards and futures?

1 / 1 point

Farmers sell in forwards and warehouses sell in futures.

Warehouses buy from the farmer in forwards, and then hedge on futures.

Farmers and warehouses sell crops in both forwards and futures.

Farmers and warehouses sell exclusively in futures.

Correct

Forwards are individualized contracts to deliver a product in a specified quantity at a specified date. Futures are generic contracts which are rarely delivered, but allow a party to hedge against losses due to fluctuating prices in that specific commodity market.

3.

Question 3

When an investor uses margin to buy or sell securities, how are the securities paid for?

1 / 1 point

On money borrowed from a broker whereby the broker may tell the investor at any time to sell securities or contribute money.

A combination of an investor's own funds and futures

On money borrowed from a broker only

A combination of an investor's own funds and money borrowed from a broker.

Correct

This describes buying on margin.

4.

Question 4

What is the primary purpose of purchasing futures if they are rarely delivered?

1 / 1 point

To negotiate the best price on a commodity with a farmer.

To protect against price fluctuations.

To allow a corporation to buy and sell commodities, which would be impossible without futures.

To purchase the industry standard of a commodity, such as those put out by the Chicago Board of Trade (CBOT)

Correct

The quality and location of the futures are often inconvenient, so buyers and sellers will close out their contracts shortly before the delivery period to protect against price fluctuations, since the prices tend to be closely related.

5.

Question 5

What often happens to futures at the time of the crop for commodities with a specific well-defined harvest window?

1 / 1 point

They tend to be traded exactly at the expected spot price at the contract’s maturity, making it difficult to profit as an investor.

They tend to be traded above the expected spot price at the contract’s maturity.

They tend to be traded below the expected spot price at the contract’s maturity.

Due to defaults, investors could lose a lot of money.

Correct

This is also known as backwardation.

6.

Question 6

How is it possible to have a future based on the S&P500?

0 / 1 point

On the last day there is a final settlement of the difference between the futures price and the actual index.

On the last day, there is a final settlement of a combination of the other commodities on the futures market.

There is a large fine on anyone who still holds the security on the final day.

Anyone still holding the security on the final day will receive a proportionate number of shares in an S&P500 index fund.

Incorrect

Futures are discrete and standardized, so this would not be possible.

7.

Question 7

What is the fair value of a futures contract with a storage cost of 3%, an interest rate of 5%, and a spot price of $1000 over a 1 year time period?

1 / 1 point

$1000.00

$1800.00

$1080.00

$1081.50

Correct

$\$1000 \times (1 + 0.05 + 0.03) = \$1080$

8.

Question 8

How can you determine whether a future is in backwardation or contango?

1 / 1 point

If the price is falling at an increasingly fast rate (has a negative second derivative), it is backwardation, but if it is rising at an increasingly fast rate (has a positive second derivative), it is contango.

If the price rises over time (has a positive derivative), it is backwardation, but if it falls (a negative derivative), it is contango.

If the price is rising at an increasingly fast rate (has a positive second derivative), it is backwardation, but if it is falling at an increasingly fast rate (has a negative second derivative), it is contango.

If the price falls over time (has a negative derivative), it is backwardation, but if it rises (a positive derivative), it is contango.

Correct

9.

Question 9

What is the Federal Funds Futures Market?

1 / 1 point

Futures contracts created by an exchange board which are settled at the end of each month for 100 minus the federal funds rate averaged over the month.

Futures contracts created by an exchange board which are settled at the end of each year for 100 minus the federal funds rate averaged over the month.

Futures contracts created by the government which are settled at the end of each year for 100 minus the federal funds rate averaged over the month.

Futures contracts created by the government which are settled at the end of each month for 100 minus the federal funds rate averaged over the month.

Correct

They were created by CBOT in 1908.