**International Finance: Questions**

Notes:

* Long means buy
* Short means sell
* Call Option gives the right to buy
* Put Option gives the right to sell

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**Question#1:** An option contract is worth zero at the start of the contract.

1. True
2. **False**

**Question#2:** Which option did Professor Lo describe as short the underlying asset?

1. Short Call Option
2. Call Option
3. **Put Option**

**Question#3:** As Professor Lo described, an investor who believes markets are going to be volatile, either with large gains or large losses, can invest in that volatility by doing which of the following?

1. Buy a put and a call, both with the same strike price
2. Buy a call at $50 and sell a call at $60
3. **Sell a put and a call, both with the same strike price**

**Question#4:** As Professor Lo describes, what is the maximum gain of someone who enters into a short put option, or short call option?

1. Gain is limited to the value of the stock or other asset, because that asset value can only drop to zero
2. **The amount of the premium**
3. Gain is unlimited

**Question#5:** A forward contract is worth nothing at the beginning of the contract.

1. **True**
2. False

Question#6: An American Option can be exercised at any time, but a European Option can only be exercised at maturity.

1. **True**
2. False

**Question#7:** In a call option contract you have the right to sell an underlying asset at a set price in the future, and in a put option contract you have the right to buy an underlying asset at a set price in the future.

1. True
2. **False**

**Question#8:** Money is exchanged between the buyer and seller at the beginning of a forward contract.

1. True
2. **False**

**Question#9:** A forward contract is more illiquid that a futures contract.

1. **True**
2. False

**Question#10:** Professor Lo states that, unlike forward contracts, the option contracts give us which of the following?

1. Higher returns for given risk
2. Tools for speculation
3. Asymmetric payoffs
4. Unlimited gains and losses

**More Advanced Questions:**

1- You have a college student travel business which sends students on European historical tours.  Students prepay for the trips in USD, but your business has substantial costs in EUR.  You have 15,000 Euro in costs in the coming year, and you are concerned about the volatility of the Euro.  The current forward rate is $1.20/EUR, but you think the EUR could move down to $1.00 or up to 1.40. Is your business exposure long or short?

1. Long
2. **Short**

2- [SAME BACKGROUND AS PRIOR QUESTION] You have a college student travel business which sends students on European historical tours.  Students prepay for the trips in USD, but your business has substantial costs in EUR.  You have 15,000 Euro in costs in the coming year, and you are concerned about the volatility of the Euro.  The current forward rate is $1.20/EUR, but you think the EUR could move down to $1.00 or up to 1.40. If you decide to enter into a hedge transaction to hedge your exposure, then will that hedge transaction be long or short?

1. **Long**
2. Short

3- [SAME BACKGROUND AS PRIOR QUESTION] You have a college student travel business which sends students on European historical tours.  Students prepay for the trips in USD, but your business has substantial costs in EUR.  You have 15,000 Euro in costs in the coming year, and you are concerned about the volatility of the Euro.  The current forward rate is $1.20/EUR, but you think the EUR could move down to $1.00 or up to 1.40.

If you decide to hedge with a forward, then will you be buying the currency forward or selling the currency forward?

1. Selling the currency forward
2. Buying the currency forward

4- [SAME BACKGROUND AS PRIOR QUESTION] You have a college student travel business which sends students on European historical tours.  Students prepay for the trips in USD, but your business has substantial costs in EUR.  You have 15,000 Euro in costs in the coming year, and you are concerned about the volatility of the Euro.  The current forward rate is $1.20/EUR, but you think the EUR could move down to $1.00 or up to 1.40. If you decide to hedge with an option, then will you be buying a Call Option or buying a Put Option?

1. Buying a Call Option
2. Buying a Put Option

5- [SAME BACKGROUND AS PRIOR QUESTION] You have a college student travel business which sends students on European historical tours.  Students prepay for the trips in USD, but your business has substantial costs in EUR.  You have 15,000 Euro in costs in the coming year, and you are concerned about the volatility of the Euro.  The current forward rate is $1.20/EUR, but you think the EUR could move down to $1.00 or up to $1.40. What will be the gain or loss on your exposure compared to plan if the price goes to $1.40?

6- [SAME BACKGROUND AS PRIOR QUESTION] You have a college student travel business which sends students on European historical tours.  Students prepay for the trips in USD, but your business has substantial costs in EUR.  You have 15,000 Euro in costs in the coming year, and you are concerned about the volatility of the Euro.  The current forward rate is $1.20/EUR, but you think the EUR could move down to $1.00 or up to $1.40. If you hedged 100% with a forward contract hedge, then what would be the gain or loss on your hedge if the price of EUR goes to $1.40?

7- [SAME BACKGROUND AS PRIOR QUESTION] You have a college student travel business which sends students on European historical tours.  Students prepay for the trips in USD, but your business has substantial costs in EUR.  You have 15,000 Euro in costs in the coming year, and you are concerned about the volatility of the Euro.  The current forward rate is $1.20/EUR but you think the EUR could move down to $1.00 or up to $1.40. If you decided to hedge 100% of your exposure with a forward hedge, then what the gain or loss on your hedged exposure if the price of EUR goes to $1.40?

8- [SAME BACKGROUND AS PRIOR QUESTION] You have a college student travel business which sends students on European historical tours.  Students prepay for the trips in USD, but your business has substantial costs in EUR.  You have 15,000 Euro in costs in the coming year, and you are concerned about the volatility of the Euro.  The current forward rate is $1.20/EUR, but you think the EUR could move down to $1.00 or up to $1.40. If you decided to hedge 100% of your exposure with an option hedge with the strike at $1.20, then what the gain or loss on your hedged exposure of the EUR goes to $1.40?   Assume there is no premium cost to buy the option.

9- [SAME BACKGROUND AS PRIOR QUESTION] You have a college student travel business which sends students on European historical tours.  Students prepay for the trips in USD, but your business has substantial costs in EUR.  You have 15,000 Euro in costs in the coming year, and you are concerned about the volatility of the Euro.  The current forward rate is $1.20/EUR, but you think the EUR could move down to $1.00 or up to $1.40. If you decided to hedge 100% of your exposure with an option hedge with the strike at $1.20, then what the gain or loss on your hedged exposure if the EUR goes to $1.00?   Assume there is no premium cost to buy the option.

10- You have an export business which forecasts Revenue of 15,000 Euro in the coming year, and you are concerned about the volatility of the Euro.  The current forward rate is $1.20/EUR but you think the EUR could move down to $1.00 or up to $1.40. What is your gain or loss on your exposure if the EUR goes to $1.00?