8.01 Derivative Instrument and Derivative Market Features

Question 1
An advantage to an investor using the over-the-counter (OTC) derivatives market rather than an exchange is *most likely*:
A. more transparency.
B. greater customization.
C. lack of counterparty risk.

Question 2
Which of the following is *most likely* an advantage of over-the-counter derivatives compared to similar exchange-traded contracts?
A. Greater regulatory oversight
B. Reduced counterparty credit risk
C. Customization of contract specifications

Question 3
Which of the following is *most likely* an advantage of exchange-traded derivatives compared to similar over-the-counter contracts?
A. Risk management applications
B. Reduced counterparty credit risk
C. Customization of contract specifications

Question 4
For otherwise equivalent futures and forward contracts, there is *most likely* a difference in the:
A. timing of their gains and losses.
B. obligations of their counterparties.
C. approximate amount of their gains and losses.

Question 5
The source of return for a derivatives dealer in the over-the-counter market is *least likely* to be:
A. commissions on transactions.
B. dealer transactions at the bid-ask spread.
C. gains on the derivative caused by gains in the underlying.

Question 6
Compared with over-the-counter derivatives, derivatives traded on an exchange are *least likely* to be characterized by:
A. regulation.
B. standardization.
C. counterparty risk.

Question 7
The amount due for a plain vanilla interest rate swap payment is *most likely* based on the interest rates of each payment stream and the swap's:
A. par value.
B. market price.
C. notional principal.