8.07 Pricing and Valuation of Interest Rates and Other Swaps

Question 1
Which of the following *best* replicates the cash flows of an interest rate swap? A series of:
A. interest rate futures.
B. interest rate call options.
C. forward rate agreements.

Question 2
A swap contract is priced so that it has a value of zero at initiation. If the value of the underlying changes during the life of a swap contract, the *most likely* impact is that:
A. only the price of the swap changes.
B. only the value of the swap changes.
C. both the value and price of the swap change.

Question 3
Initiating a fixed-for-floating swap at terms that result in the contract having an initial value of zero is *most likely* referred to as swap:
A. pricing.
B. valuation.
C. collateralization.

Question 4
Swap pricing *most likely* refers to:
A. determining the amount of cash owed on a swap payment date.
B. establishing the amount payable for early termination of a swap.
C. setting the contract terms so the swap has an initial value of zero.

Question 5
A one-year fixed-for-floating swap contract that specifies quarterly payment dates is *most* similar to a:
A. one-year floating-rate note with quarterly coupon payments.
B. portfolio of cash-settled long call options expiring in 3, 6, 9, and 12 months.
C. portfolio of cash-settled forward contracts expiring in 3, 6, 9, and 12 months.

Question 6
The counterparties to an existing fixed-for-floating interest rate swap agree to terminate the swap three months prior to expiration. The process for determining the amount payable to terminate the contract is *most likely* known as:
A. pricing.
B. valuation.
C. collateralization.

Question 7
Assuming a forward market in contango, a fixed-for-floating swap with an initial value of zero is *most likely* equivalent to a series of forward contracts with:
A. different agreed-on prices having a net initial value of zero.
B. the same agreed-on price having a net initial value of zero.
C. the same agreed-on price, each having an initial value of zero.

Question 8
A fixed-for-floating interest rate swap has two years until expiration. The counterparties have just completed the cash settlement for a scheduled payment date two years prior to contract expiration. Which of the following *best* describes the value of the swap?
A. Zero
B. The net present value of the cash flows until contract expiration
C. The net present value of the cash flows due at the next payment date

Question 9
At contract initiation, the value of a fixed-for-floating swap is *most likely*:
A. equal to zero.
B. the swap's fixed interest rate.
C. unable to be determined, since future interest rates are unknown.