Table 2-3. The Flow of Money between Traders' Accounts

		Trader A (long)		Trader B (short)	
Day	Settlement price per bushel	Cumulative profits	Equity in account	Cumulative profits	Equity in account
1	$2.75	$ 0	$2,000	$ 0	$2,000
2	2.77	+100	2,100	−100	1,900
3	2.78	+150	2,150	−150	1,850
4	2.71	−200	1,800	+200	2,200

or short corn at their initial price of $2.75, but at $2.71. The loser has already paid the winner and accounts balance. Futures positions are technically reset to zero, the consequence of daily marking-to-market.

MARGIN CALLS. When the equity in a trader's account falls below the maintenance margin level, the trader receives a *margin call* from the account executive. The trader must deposit additional funds to bring the equity position back up to the initial margin level. If the customer fails to deposit the funds, the account executive has authorization to close the trade. This system displays considerable flexibility, ranging from "mail a check tomorrow" to "have a certified check here within an hour," depending on customer-broker relations. Alternatively, as equity positions surpass initial margin levels, customers can withdraw all or part of the surplus if desired.

The examples in table 2-4 illustrate how an equity position can grow or diminish as prices fluctuate. A trader buys a 5,000-bushel contract of May corn at $2.75 per bushel. The initial margin is $2,000, and the maintenance margin level is $1,750. In example 1, at the end of the second day the price is $2.76. The trader makes $50, bringing the equity position up to $2,050. By the end of the third day, the price has fallen $0.03 to $2.73; the equity position is now $1,900. On the next day a $0.05 drop in the price brings the equity position down to $1,650, below the maintenance margin level of $1,750. The account executive makes a margin call. The customer desiring to maintain the market position must deposit $350 to restore the account to the initial margin level. However, the trader always has the option of getting out of the market rather than posting the additional funds.

In example 2 the price jumps from $2.75 to $2.85, increasing the value of the customer's position to $2,500. The customer may withdraw the $500 surplus. However, because futures prices fluctuate daily, it is not advisable to make small withdrawals perfunctorily.