Q 1.

A defaulting member's clients' positions could be transferred to ____________ by the Clearing Corporation.

- A suspense account
- Another solvent member
- The Exchange
- Error account

✕ WRONG ANSWER

CORRECT ANSWER:

Another solvent member

Explanation:

As per SEBI rules, the Clearing Corporation can transfer client positions from one broker member to another broker member in the event of a default by the first broker member.

Q 2.

The Strangle strategy is similar to straddle strategy in outlook but different in ______________ .

- implementation
- aggression
- cost
- All of the above

✓ CORRECT ANSWER

Explanation:

Long Strangle As in case of straddle, the outlook here (for the long strangle position) is that the market will move substantially in either direction, but while in straddle, both options have same strike price, in case of a strangle, the strikes are different. Also, both the options (call and put) in this case are out-of-the-money and hence the premium paid is low.

Q 3.

Of the below options, which is more difficult to manipulate ?

- Individual Stocks
- IT sector stocks
- Stock Index
- All of the above

✕ WRONG ANSWER

CORRECT ANSWER:

Stock Index

Explanation:

A stock index contains a basket of high market cap stocks. So its very difficult to manipulate it when compared to individual stocks.

Q 4.

A trader Mr. Raj wants to sell 10 contracts of June series at Rs.5200 and a trader Mr. Rahul wants to buy 5 contracts of July series at Rs. 5250. Lot size is 50 for both these contracts. The Initial Margin is fixed at 10%. They both have their accounts with the same broker. How much Initial Margin is required to be collected from both these investors by the broker ?

- Rs 2,60,000
- Rs 1,31,250
- Rs 3,91,250
- Rs 1,28,750

✓ CORRECT ANSWER

Explanation:

Payment of Initial Margin by a broker cannot be netted against two or more clients. So he will have to pay the margin for the open position of each of his clients.

So margin payable for Mr. Raj is : 10 x 5200 x 50 at 10% = Rs 2,60,000

Margin payable for Mr. Rahul is : 5 x 5250 x 50 at 10% = Rs 1,31,250

Total = Rs 3,91,250.

Q 5.

Liquid Assets offered by a Clearing Member to the Clearing Corporation can include Mutual Fund Units and Bank Gaurantees. True or False ?

- False
- True

✓ CORRECT ANSWER

Explanation:

Clearing member is required to provide liquid assets to cover various margins and liquid networth requirements. The total liquid assets comprise of at least 50% of the cash component and the rest is non cash component.

1. Cash Component:

• Cash

• Bank fixed deposits (FDRs) issued by approved banks and deposited with approved custodians or Clearing Corporation.

• Bank Guarantees (BGs) in favour of clearing corporation from approved banks in the specified format.

• Units of money market mutual fund and Gilt funds where applicable haircut is 10%.

• Government Securities and T-Bills

2. Non Cash Component:

• Liquid (Group I) Equity Shares as per Capital Market Segment which are in demat form, as specified by clearing corporation from time to time deposited with approved custodians.

• Mutual fund units other than those listed under cash component decided by clearing corporation from time to time deposited with approved custodians.

Q 6.

An option buyer pays the option premium to the option seller. State True or False?

- (•) True
- ( ) False

✓ CORRECT ANSWER

Explanation:

Option Premium is the price which the option buyer pays to the option seller.

Q 7.

Contract month is the month in which futures contract –

- (•) Expires
- ( ) Are at the lowest price
- ( ) Are at its highest price
- ( ) None of the above

✓ CORRECT ANSWER

Explanation:

Contract month is the month in which futures contract expires.

At the expiry of the nearest month contract, a new contract with 3 months maturity will start. Thus, at any point of time, there will be 3 contracts available for trading.

Q 8.

By meeting additional requirements, a Trading Member can also be a Clearing Member – True or False ?

- (•) True
- ( ) False

✓ CORRECT ANSWER

Explanation:

A Trading Member can also be a Clearing Member by meeting additional requirements.

Q 9.

The minimum price movement in a scrip is called BASIS.

- ( ) True
- (•) False

✓ CORRECT ANSWER

Explanation:

The minimum price movement in a scrip is called TICK. It is minimum move allowed in the price quotations. Exchanges decide the tick sizes on traded contracts as part of contract specification.

The difference between the spot price and the futures price is called basis.

Q 10.

Calendar spreads carry only ________ risk.

- ( ) speculative
- (•) market
- ( ) basis
- ( ) interest

✗ WRONG ANSWER

CORRECT ANSWER:

basis

Explanation:

Basis means the difference between Spot Price and Future Price or difference between two future price of the same underlying.

Basis risk is the chance that the basis will have strengthened or weakened from the time the hedge is implemented to the time when the hedge is removed - ie. the risk that the two future prices will not fluctuate identically.

Q 11.

Risk which are Non Systematic can be reduced by diversifying ones portfolio.

- (•) True
- ( ) False

✓ CORRECT ANSWER

Explanation:

Specific risk or unsystematic risk is the component of price risk that is unique to particular events of the company and/or industry. This risk is inseparable from investing in the securities. This risk could be reduced to a certain extent by diversifying the portfolio.

Q 12.

An exchange traded option after maturity ________ .

- ( ) Can be traded after 2 days ie. after pay in / pay out.
- ( ) Can be traded in the spot market
- (•) Cannot be traded
- ( ) None of the above

✓ CORRECT ANSWER

Explanation:

An exchange traded option can only be traded till the last date of expiry ie. its maturity. After that it will not be available for trading.

For eg - If 27th June is the last Thursday of the month ie. the maturity, all options of June month will cease to exist as soon as the market closes on 27th June.

Q 13. **The option premium paid by the option buyer remains with the exchange till the time it is closed out or expired.**

- True
- False

✓ CORRECT ANSWER

Explanation:

The Option premium is collected by the exchange but is given to the seller of option.

Q 14. **When a call option is ' In The Money ' – the ______________.**

- Strike Price is lower than Spot Price
- Strike Price is higher than Spot Price
- Strike Price is same as Spot Price
- None of the Above

✓ CORRECT ANSWER

Explanation:

A call option is considered **"In The Money"** when the **Spot Price (current market price)** of the underlying asset is **higher than the Strike Price** (the price at which the option holder has the right to buy the asset).

For example:

- If the **Strike Price** of a call option is Rs. **50**
- And the **Spot Price** is Rs. **60**
- The option is **In The Money** by Rs. **10**

Q 15. **You have bought a CALL of SBI of Strike price of Rs 200 of January. To close the position, you will buy a PUT of same strike price of January. True or False ?**

- True
- False

✓ CORRECT ANSWER

Explanation:

When you buy a CALL option, to close this position you will have to sell a CALL option of same strike price and expiry.

Q 16. **An Investor Mr Shah wants to buy 8 contracts of January series at Rs 740 and an investor Mr Patel wants to sell 5 contracts of February series at Rs 754. Initial Margin is fixed at 6%. How much initial margin has to be collected from them ? Market lot is 250.**

- Rs 56,550
- Rs 88,800
- Rs 1,45,350
- Rs 1,87,600

✓ CORRECT ANSWER

Explanation:

Margin to be collected from Mr Shah : Rs 740 X 8 contracts X 250 (Market lot) at 6%

= Rs 1480000 x 6% = Rs 88,800

Margin to be collected from Mr Patel : Rs 754 X 5 contracts X 250 (Market lot) at 6%

= Rs 942500 x 6% = Rs 56,550

So the total margin : 88,800 + 56,550 = Rs 145350

Q 17. **In case of CALL OPTION, it gives the buyer the right to _________ .**

- buy the underlying at market price
- buy the underlying at set price
- sell the underlying at market price
- sell the underlying at set price

✗ WRONG ANSWER

CORRECT ANSWER:

buy the underlying at set price

Explanation:

A call option is a financial instrument that gives the buyer the right, but not an obligation, to buy a set quantity of a security at a set strike price at some time on or before expiration.

In easy terms - what ever may be the market price, the buyer will get the security at the set price or strike price as he has paid a premium for it.

Q 18. **The spot price of LKK share is Rs 300, the put option of Strike Price Rs 280 is _____ .**

- In the money
- Out of the money
- At the money
- None of the above

✓ CORRECT ANSWER

Explanation:

A put option is "In the Money" if Strike Price > Spot Price (because the holder can sell at a higher price than the market).

A put option is "At the Money" if Strike Price = Spot Price.

A put option is "Out of the Money" if Strike Price < Spot Price (because selling at the strike price is less profitable than selling at the market price).

In the above example, since Rs. 280 (Strike Price) < Rs. 300 (Spot Price), the put option is not profitable and is considered Out of the Money (OTM).

Q 19.

A stock exchange has ON LINE SURVEILLANCE capability to monitor the __________.

- Volumes
- Prices
- Positions
- All of the above

✓ CORRECT ANSWER

Explanation:

All modern stock exchanges have highly developed online surveillance sytems to monitor the volumes / position and prices of all listed products and also check any unusual activity etc. in them.

Q 20.

Equities can also be traded through Professional Clearing Members.

- True
- False

✕ WRONG ANSWER

CORRECT ANSWER:

False

Explanation:

Professional clearing member clears the trades of his associate Trading Member and institutional clients. He need not be a member of an exchange.

Q 21.

Important element (s) of risk management in the derivatives segment is (are) :

- Monitoring capital adequacy requirements of members
- Regular evaluation of trading members positions
- Collection of Margins
- All of the above

✓ CORRECT ANSWER

Explanation:

Exchanges, with the help of Clearing Corporations, manage the risk in the derivatives segment using a comprehensive risk containment mechanism.

There are stringent requirements of capital adequacy for membership (Financial strength of a member)

The most critical component of risk containment mechanism for F&O segment is the margining system and online position monitoring.

Q 22.

What is a covered call ?

- Its a strategy to sell calls at various strike prices to profit from the premium received
- Its used to generate extra income from existing holdings in the cash market.
- Its a strategy of buying a call and sell its future for hedgeing
- Its done by buying a call and put of the same strike price.

✕ WRONG ANSWER

CORRECT ANSWER:

Its used to generate extra income from existing holdings in the cash market.

Explanation:

A covered call is an options trading strategy where an investor sells (writes) a call option while owning the underlying stock. This strategy helps generate extra income through the premium received from selling the call.

How It Works:

- The trader already owns the stock in the cash market.

- They sell a call option on the same stock, collecting a premium.

- If the stock price remains below the strike price, the trader keeps the premium as profit.

- If the stock price rises above the strike price, the trader may have to sell the stock at the strike price, potentially limiting their upside gains.

Q 23.

A trader buys a call and a put option of same strike price and same expiry. This is called as _________ .

- Butterfly
- Short Straddle
- Long Straddle
- Calendar Spread

✓ CORRECT ANSWER

Explanation:

To do a long straddle strategy one has to buy a call and a put option of the same strike price and expiry. Together, they produce a position which will lead to profits if the market / stock is very volatile and it makes a big move - either up or down.

For eg- A person buys a Rs 200 call at Rs 30 and a Rs 200 put at Rs 20 of a stock. If the stock rises significantly the call will rise greatly but his put will fall by maximum Rs 20. So he makes a good profit. If the stock falls significantly, he loses his call money buy gains greatly in the put option as it rises.

Thus the Long Straddle is used when a trader expects a big move in the stock - in any direction is ok.

Q 24.

Position limits have been designed to ________ .

- prevent the markets from being wrongly influenced by Government policies
- support the market and determine its movements
- stop the markets being wrongly influenced by the trading activities of investor(s)
- all of the above

✓ CORRECT ANSWER

Explanation:

Position limits are the maximum exposure levels which the entire market can go up to and each Clearing Member or investor can go up to.

Position limits for the entire market and Clearing Members and investors are defined by SEBI.

Q 25.

Of the below options, when will the April index future monthly contract be introduced on NSE ?

- On the 1st trading day after last Thursday in March
- On the 1st trading day after last Friday in March
- On the 1st trading day after last Thursday in January
- On the 1st trading day after last Friday in January

✓ **CORRECT ANSWER**

Explanation:

In January, the contracts available are:

- **January (near month)**
- **February (next month)**
- **March (far month)**

On the last Thursday of January, the January contract expires.

On the next trading day (usually Friday), the April contract is introduced to maintain the 3-month cycle:

Now we have February (near), March (next), and April (far) contracts.

Q 26.

A clearing member is required to bring in an additional incremental deposits of _____ to clearing corporation for each additional TM he undertakes to clear and settle deals.

- Rs.5 lakhs
- Rs.10 lakhs
- Rs.15 lakhs
- Rs.20 lakhs

✓ **CORRECT ANSWER**

Explanation:

A clearing member is required to bring in an additional incremental deposits of Rs.10 lakhs to clearing corporation for each additional TM (Trading Member), in case the Clearing Member undertakes to clear and settle deals for other TMs.

settle deals for other TMs.

Q 27.

A common individual investor cannot write an option.

- True
- False

✓ **CORRECT ANSWER**

Explanation:

Writing an option means selling an option. Any person can write an option after he has fullfilled the necessary formalities like client registration, margin payments etc.

Q 28.

STT means ________ .

- Stock Trading Tax
- Stock Transaction Tax
- Securities Transaction Tax
- Securities Trading Tax

✓ **CORRECT ANSWER**

Explanation:

Securities Transaction Tax (STT) is payable by the Trading Members / Brokers on the stock market transactions and this is collected from their clients.

Q 29.

Value-at-risk calculations are done on the basis of __________ .

- best possible market conditions
- ideal market conditions
- volatility
- 90 % risk parameter

✓ **CORRECT ANSWER**

Q 30.

Longer the time to expiry/maturity of a call option, higher will be the time value.

- ○ False
- ◉ True

✓ CORRECT ANSWER

Explanation:

Time value of the option depends upon how much time is remaining for the option to expire.

Longer the maturity of the option greater is the uncertainty and hence the higher premiums.

Q 31.

A buyer of Put Option –

- ○ Has the obligation to take delivery of asset
- ◉ Has the right to buy the underlying asset
- ○ Has the right to sell the underlying asset
- ○ Has the obligation to give delivery of asset

✕ WRONG ANSWER

CORRECT ANSWER:

Has the right to sell the underlying asset

Explanation:

Put Option is an option contract giving the owner the right, but not the obligation, to sell a specified amount of an underlying security at a specified price within a specified time. This is the opposite of a call option, which gives the holder the right to buy shares.

So an Option, which gives buyer a right to buy the underlying asset, is called Call option and the option which gives buyer a right to sell the underlying asset, is called Put option. There is no obligation when you buy an option.

Q 32.

In the derivatives market, all the margins are collected by ___________ .

- ○ Margin House
- ○ SEBI
- ◉ Clearing House
- ○ Clearing Banks

✓ CORRECT ANSWER

Explanation:

Responsibilities of the Clearing House / Corporation include:

- Collection of Margins on timely basis

- Smooth operation of the Market

- Daily Clearing and Settlement etc.

Q 33.

A person sells a put option of Strike Price 265, market lot 1000, at a premium of Rs 40, the maximum profit he can make is _____.

- ○ Rs 25,000
- ○ Rs 2,65,000
- ◉ Rs 40,000
- ○ Unlimited

✓ CORRECT ANSWER

Explanation:

The maximum profit for a seller of an option is the premium he receives. In this case he has received Rs 40. The Lot size is 1000.

So the maximum profit he can make is 40 x 1000 = Rs 40,000.

Q 34.

When you buy a put option on a stock you are owning, this strategy is called ____________ .

- ○ Straddle
- ○ writing a covered call
- ○ calender spread
- ◉ protective put

✓ CORRECT ANSWER

Explanation:

Protective Put is a a risk-management strategy that investors can use to guard against the loss of unrealized gains.

The put option acts like an insurance policy - it costs money, which reduces the investor's potential gains from owning the security, but it also reduces his risk of losing money if the security declines in value.

Q 35. **Beta is the change in option price given a one percentage point change in the risk-free interest rate.**

- True
- False

✗ WRONG ANSWER

CORRECT ANSWER:

False

Explanation:

Rho is the change in option price given a one percentage point change in the risk-free interest rate.

Beta a measure of systematic risk of a security that cannot be avoided through diversification.

Q 36. **If futures price are lower than spot price of an asset, market participants may expect the spot price to come down in future. This situation is called –**

- Contango
- Reverse System
- Backwardation
- Impact costs

✓ CORRECT ANSWER

Explanation:

As per the Expectancy Model of Future Pricing - If future prices are higher than spot prices (over the normal cost of carry) we can expect the spot prices to go up in future. This is called as Contango.

Similarly, if the future prices are lower than spot prices, we can expect the spot prices to go down and this is called as Backwardation.

Q 37. **The networth of clearing members does not include -**

- Bad Deliveries
- Doubtful Debts
- Unlisted Securities
- All of the Above

✓ CORRECT ANSWER

Explanation:

The networth of the member shall be computed as follows:

- Capital + Free reserves
- Less non-allowable assets which are :

o Fixed assets
o Pledged securities
o Member's card
o <u>Non-allowable securities (unlisted securities)</u>
o <u>Bad deliveries</u>
o <u>Doubtful debts and advances</u>
o Prepaid expenses
o Intangible assets
o 30% marketable securities

o 30% marketable securities

Q 38. **The spot price of ABC share is Rs 500, the call option of Strike Price Rs 500 is –**

- In the money
- Out of the money
- At the money
- None of the above

✓ CORRECT ANSWER

Explanation:

At the Money - A situation where an option's strike price is identical to the price of the underlying security. Both call and put options will be simultaneously "at the money."

For example, if XYZ stock is trading at 100, then the XYZ 100 call option is at the money and so is the XYZ 100 put option. An at-the-money option has no intrinsic value, but may still have time value. Options trading activity tends to be high when options are at the money.

Q 39.

The Option which gives its holder a positive cash flow is called a _______ .

- At the money option
- Out of the money option
- In the money option
- Delta

✓ CORRECT ANSWER

Explanation:

An 'In the money' (ITM) option gives the holder a positive cash flow, if it were exercised immediately.

A call option is said to be ITM, when spot price is higher than strike price. And, a put option is said to be ITM when spot price is lower than strike price.

Q 39.

The Option which gives its holder a positive cash flow is called a _______ .

- At the money option
- Out of the money option
- In the money option
- Delta

✓ CORRECT ANSWER

Explanation:

An 'In the money' (ITM) option gives the holder a positive cash flow, if it were exercised immediately.

A call option is said to be ITM, when spot price is higher than strike price. And, a put option is said to be ITM when spot price is lower than strike price.

Q 40.

An investor who is less risk averse would like to have greater exposure to equity and other risky investments compared to fixed income instruments - State True or False ?

- False
- True

✕ WRONG ANSWER

CORRECT ANSWER:

True

Explanation:

Although Equity Markets can give good returns but they are quiet risky to invest. So only a less risk averse investor would prefer to invest in equity.

A more risk-averse investor would prefer investments that are more secure and thus would have higher portfolio allocations to debt and fixed income instruments.

(Risk Averse person is reluctant to take risk. A more risk averse person plays very safe and does not take any risk. A less risk averse person can take some risks)

Q 41.

You are interested in creating a perfect hedge for your portfolio. For this you need to sell index futures and the index futures sold should be equal to __________.

- Value of your portfolio + Beta of your portfolio
- Value of your portfolio / Beta of your portfolio
- Value of your portfolio * Beta of your portfolio
- Value of your portfolio - Beta of your portfolio

✓ CORRECT ANSWER

Explanation:

To get a hedge, one has to multiply the beta of his portfolio with the value of the portfolio and them sell that value of index futures.

Q 42.

Mr. Shah purchased two futures contracts of Ambuja Cements Ltd at Rs. 600 (lot size 2000 shares). What will be his profit or loss if he sells them at Rs 607.

- Rs 14000
- Rs 28000
- Rs 20000
- Rs 27500

✓ CORRECT ANSWER

Explanation:

Mr Shah bought at Rs 600 and sold at Rs 607, so he made a profit of Rs 7.

Lot size is Rs 2000 and he has purchased 2 lots, so 4000 shares x Rs 7 profit = Rs 28,000

Q 43.

On what occasion from the below, the derivative segment of the stock market has to report to SEBI ?

- Occasions when the 90% Value at Risk (VaR) limit has been violated
- Occasions when the 96.5% Value at Risk (VaR) limit has been violated
- Occasions when the 95% Value at Risk (VaR) limit has been violated
- Occasions when the 99% Value at Risk (VaR) limit has been violated

✕ WRONG ANSWER

CORRECT ANSWER:

Occasions when the 99% Value at Risk (VaR) limit has been violated

Explanation:

Some of the reports which a derivatives segment of a Stock Exchange has to provide to SEBI are:

- Occasions when the 99% Value at Risk limit has been violated

- Defaults by broker-members

- Daily market activity report

- Daily market report

Q 44.

When a person sells a call option, he has a –

- Bullish view
- Bearish view
- Long term view
- None of the above

✓ CORRECT ANSWER

Explanation:

A call option seller has a neutral to bearish perspective regarding the underlying price.

A call option buyer has a bullish view.

Q 45.

You have bought a CALL of Ambuja Cements of Strike price of Rs 500 of January. To close the position, you will Sell a CALL of same strike price of January. True or False ?

- False
- True

✓ CORRECT ANSWER

Explanation:

When you buy a CALL option, it can only be squared up by selling the same CALL option.

Q 46.

When a person sells a put option, he has an –

- Bullish view
- Bearish view
- Mixed view
- Long term view

✓ CORRECT ANSWER

Explanation:

Views of Option Buyers and Sellers :

Buyer of Call Option - Bullish

Seller of Call Option - Bearish or Flat

Buyer of Put Option - Bearish

Seller of Put Option - Bullish or Flat

Q 47.

In the Options segment, if you buy a CALL, you expect the market / scrip to move _____

- Down
- Up
- One cannot buy a Call in options market
- Remain range bound

✓ CORRECT ANSWER

Explanation:

A buyer of a CALL Option has a bullish view - so he will expect the market / script to move up to make a profit.

Q 48.

The right to buy an asset for a certain price on or before a specified date is the characteristics of a ____________.

- American Put Option
- American Call Option
- European Put Option
- European Call Option

✓ CORRECT ANSWER

Explanation:

A Call Option gives the holder the right to buy the underlying asset on or before a particular date for a certain price.

American option: The owner of such option can exercise his right at any time on or before the expiry date/day of the contract.

Therefore, an American Call option gives the holder the right to buy an asset for a certain price on or before a specified date.

(European option: The owner of such option can exercise his right only on the expiry date/day of the contract. In India, all Index and stock options are European)

Q 49.

The spot price of Grasim Industries Ltd share is Rs 900, the call option of Strike Price Rs 850 is _____ .

- At the money
- Out of the money
- In the money
- None of the above

✓ CORRECT ANSWER

Explanation:

In call options, when the Spot price is higher than Strike price - that call option is In the Money.

Q 50.

A calendar spread contract in index futures attracts higher margin than sum of two independent legs of futures contract.

- False
- True

✓ CORRECT ANSWER

Explanation:

A calendar spread contract in index futures attracts LOWER margin than sum of two independent legs of futures contract. This because the risk is very less on calender spreads.

Q 51.

When a stock which is part of the index has a stock split, it does not have an impact on the index.

- True
- False

✗ WRONG ANSWER

CORRECT ANSWER:

True

Explanation:

Stock Split has an effect on Options, Strike Price etc. but has no impact on the index as such.

Q 52.

Generally the Future prices converge to Spot prices on expiry day - True or False?

- False
- True

✗ WRONG ANSWER

CORRECT ANSWER:

True

Explanation:

Future Price essentially means Spot Price + Cost of Carry ie. interest cost etc.

On the expiry day ie. the last day, the cost of interest etc. will be nil, so the Future Price and Spot price should ideally be same.

Q 53.

Rho is ______ .

- is the change in option price given a one percentage point change in the risk-free interest rate
- the change in option price given a one-day decrease in time to expiration
- speed with which an option moves with respect to price of the underlying asset
- a measure of the sensitivity of an option price to changes in market volatility

✓ CORRECT ANSWER

Explanation:

Please memorise : Rho = change in INTEREST rate.

Q 54.

ETFs is basket of securities that trade like individual stock on an exchange- True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

Exchange Traded Funds (ETFs) is basket of securities that trade like individual stock on an exchange. They have number of advantages over other mutual funds as they can be bought and sold on the exchange.

Since, ETFs are traded on exchanges intraday transaction is also possible.

Q 55.

A long position in a January future contract can be reversed by a short position in that stock futures of February month – True / False ?

- False
- True

✓ CORRECT ANSWER

Explanation:

A position in futures can be reversed by squaring up in the same month and not in a different month. So in the above case the position can be reversed by selling the stock future in January month.

Q 56.

The mark to market debits for stock futures are done on a –

- Daily basis
- Weekly basis
- Monthly basis
- Hourly basis when markets are very volatile

✓ CORRECT ANSWER

Explanation:

In the futures market, profits and losses are settled on day-to-day basis – called mark to market (MTM) settlement.

The exchange collects these margins (MTM margins) from the loss making participants and pays to the gainers on day-to-day basis.

Therefore all futures positions - for both Index and Stocks are marked to market on a daily basis.

Q 57.

You have sold one lot of JSW Steel futures for Rs 800 (lot size 2000) expecting that this share price will go down. But you also wants to protect yourself against any loss of more than Rs 10,000. What should you do ?

- Place a limit order to buy at Rs 805
- Place a stop loss buy order at Rs 795
- Place a stop loss buy order at Rs 805
- Place a limit sell order at Rs 805

✗ WRONG ANSWER

CORRECT ANSWER:

Place a stop loss buy order at Rs 805

Explanation:

As you have sold a futures contract, you will make a loss when the price will move up.

You do not want to make a loss of more then Rs 10,000. The lot size is 2000.

10,000 / 2000 = 5 - which means if the price moves up by Rs 5 (from 800 to 805) , you will make a loss of Rs 10,000.

So you will put a STOP LOSS buy order at 805. Which means in case the prices move up, the trade will be executed and the contract will be squared up at Rs 805, resulting in a maximum loss of Rs 10,000.

Q 58.

A risky trader / speculator believes that the future price of ABC company will fall and being a smart trader he will ________________ .

- buy ABC futures now and sell them later when it falls
- wait till the price of ABC futures and cash market price become same
- sell ABC futures now and buy them later when the price falls
- will do nothing as he had suffered a loss in his previous trade

✓ CORRECT ANSWER

Explanation:

A speculator who believes that the price of a stock (ABC) will fall in the future is taking a bearish view.

To profit from a price decline, a smart trader would:

- **Sell futures contracts now (at a higher price)**
- **Buy them back later (at a lower price)**
- **The difference is the profit**

Q 59.

You are long in ICICI Bank Ltd futures at price Rs 1000. The prices rises to Rs 1020 next day. The Mark to Market margin will be credited to your account. True or False ?

- False
- True

✓ CORRECT ANSWER

Explanation:

You are long means you have bought ICICI bank futures at Rs 1000. Next day the price rises to Rs 1020, which means there is a Mark to Market gain of Rs 20. So Rs 20 x the lot size, this amount will be credited in your ledger account with the broker.

Q 60.

Option Premium consists of two components –

- Intrinsic value and time value
- Sum of Call and Put premium
- Premium value and time value
- Intrinsic value and premium

✓ CORRECT ANSWER

Explanation:

Option premium consists of two components - intrinsic value and time value. For an option, intrinsic value refers to the amount by which option is in the money i.e. the amount an option buyer will realize, before adjusting for premium paid, if he exercises the option instantly. Therefore, only in-the-money options have intrinsic value whereas at-the-money and out-of-the-money options have zero intrinsic value. The intrinsic value of an option can never be negative.

For eg - If the spot price is Rs 200, and the call option premium of a Rs 195 strike price is Rs 25, then Rs 5 is the intrinsic value (200 - 195) and balance Rs 20 is time value.

Q 61.

With a fall in interest rates, the premium on CALL Options will _______.

- Rise
- Fall
- No Effect
- None of the above

✓ CORRECT ANSWER

Explanation:

When the interest rates falls, the cost of carry also falls, thus reducing the premium on call options.

On the other hand, the premium on put options will rise with a fall in interest rates.

Q 62.

____________ pays the initial margin when entering into a futures contract.

- The Buyer
- The Seller
- Both Buyers and Sellers
- None of the above

✓ CORRECT ANSWER

Explanation:

In futures both buyer and seller pays the margin as both are heavily exposed to market risks.

In options, only the seller has to pay the margin as buyers have a limited risk.

Q 63.

You have bought a CALL of ITC Ltd. of Strike price of Rs 200 of January. To close the position, you will SELL a PUT of same strike price of January. True or False ?

- False
- True

✓ CORRECT ANSWER

Explanation:

If you have bought a CALL option, then to close the position you will have to sell a CALL option Rs 200 strike price.

Q 64.

If you have a long position in futures contract, you can square up it by _________ .

- Buying a call option of that security
- Selling the same futures contract
- Selling the far month future contract so that you have more time and can earn more
- Buying a put option of that security

✓ CORRECT ANSWER

Explanation:

A future contract can be squared up by selling the same contract and in no other way.

Q 65.

Mr. Singh purchases a call option on a stock at Rs. 10 per call with strike price of Rs. 140. If on exercise date, stock price is Rs. 168 , ignoring transaction cost, Mr. Singh will choose ______

- To exercise the option
- Not to exercise the option
- May or may not depending on the balance he has in his bank account
- May or may not depending on the recommendation of experts

✓ CORRECT ANSWER

Explanation:

Mr Singh has purchased a CALL and on the expiry day he is in a profitable postion as the price of the stock has risen and the spot price is above the strike price. So he will exercise his option.

Q 66.

Hedgeing is a tool used to protects ones portfolio against any downturn by going short in index. True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

Hedgeing basically means making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

In the above question, if an investor own 30-40 stocks and feels the market (and so his stocks) will go down due to a upcoming event, he will short the index to minimise his losses.

Investors use this strategy when they are unsure of what the market will do.

Q 67.

Derivative clearing members are required to maintain a net worth of minimum Rs 4 crores.

- True
- False

✓ CORRECT ANSWER

Explanation:

The minimum networth for Clearing members of the derivatives clearing corporation/house shall be Rs.300 Lakhs (Rs 3 crores). The networth of the member shall be computed as follows:

- Capital + Free reserves
- Less non-allowable assets which are :

o Fixed assets
o Pledged securities
o Member's card
o Non-allowable securities (unlisted securities)
o Bad deliveries
o Doubtful debts and advances
o Prepaid expenses
o Intangible assets
o 30% marketable securities

Q 68.

An option which would give a zero cash flow to its holder if it were exercised immediately is know as _______ .

- At the money option
- Out of the money option
- In the money option
- None of the above

✕ WRONG ANSWER

CORRECT ANSWER:

At the money option

Explanation:

A situation where an option's strike price is identical to the price of the underlying security. Both call and put options will be simultaneously "at the money." For example, if XYZ stock is trading at 75, then the XYZ 75 call option is at the money and so is the XYZ 75 put option.

At the money option would lead to zero cash flow if it were exercised immediately. Therefore, for both call and put ATM options, strike price is equal to spot price.

Q 69.

In a Derivatives Market, the person who takes the risk are _______

- Arbitrageurs
- Speculators
- Hedgers
- None of the Above

✓ CORRECT ANSWER

Explanation:

Hedgers use derivatives to manage risks, Arbitrageurs use Cash market and Derivative market to make money by using the price differences. Speculators take open positions and take the risks.

Q 70.

In the Option segment, if you buy a CALL at a premium of Rs 35 at the Strike Price of Rs 400, lot is of 200 shares, then the maximum possible Profit is ______

- Rs 400
- Rs 7000
- Rs 43000
- Unlimited

✕ WRONG ANSWER

CORRECT ANSWER:

Unlimited

Explanation:

When you buy a CALL option, your losses are limited to the extent of premium paid, but your profits, theoretically can be unlimited as the price of the underlying can rise to any levels.

When the price of an underlying rises, the price of an CALL option will also rise and so you can have unlimited profits.

Q 71.

An Out of the Money option will have :

- More than 1 intrinsic value
- Zero intrinsic value
- Negative intrinsic value
- None of the above

✓ CORRECT ANSWER

Explanation:

Intrinsic value in options is the in-the-money portion of the option's premium. For example, If a call options strike price is Rs15 and the underlying stock's market price is at Rs 25, then the intrinsic value of the call option is Rs 10.

Option premium consists of two components - intrinsic value and time value. For an option, intrinsic value refers to the amount by which option is in the money i.e. the amount an option buyer will realize, before adjusting for premium paid, if he exercises the option instantly. Therefore, only in-the-money options have intrinsic value whereas at-the-money and out-of-the-money options have zero intrinsic value. The intrinsic value of an option can never be negative.

Q 72.

Derivatives market helps shift of speculative trades from unorganized market to organized market. True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

In the unorganized markets, there is a huge risk of counter party default etc. In the organized markets for derivatives the Clearing Corporation guarantees the clearing and settlement of all trades even if there is a default of any participant.

Q 73.

Beta of a portfolio is 1.3 and the portfolio value is Rs 9,00,000. The benchmark index level is 8000 and one futures contract lot size is 75. Calculate the number of contracts required for a good hedge?

- 5 contracts
- 4 contracts
- 3 contracts
- 2 contracts

✕ WRONG ANSWER

CORRECT ANSWER:

2 contracts

Explanation:

Hedge Ratio = Value of the portfolio x Beta of the portfolio / Value of index futures contract

= 9,00,000 x 1.3 / 8000

= 146.25

Contracts required for a good hedge = 146.25 / Contract size = 146.25 / 75 = 1.95

Since one cannot hedge 1.95 contracts, the hedge will be for 2 futures contracts.

Q 74.

In futures contract, the clearing house / clearing corporation practically becomes the counter party for all transactions - State True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

Clearing Corporation is responsible for clearing and settlement of all trades executed on the F&O Segment of the Exchange.

Clearing Corporation acts as a legal counterparty to all trades on this segment and also guarantees their financial settlement.

Q 75.

If you buy a PUT option at premium of Rs 37 at the Strike Price of Rs 260, then the maximum possible loss on this position is ______

- Unlimited
- Rs 37
- Rs 297
- Rs 223

✓ CORRECT ANSWER

Explanation:

The maximum possible loss for a buyer of any option is the premium paid. Here you have paid Rs 37 as premium to buy a put option, so the maximum possible loss is Rs 37.

More Explanation - Buying a PUT means expecting the price to fall. When the price falls, the premium rises and you make a profit. When price rises, the premium falls so the buyer of put makes a loss. In above case the premium can technically fall from Rs 37 to zero, so the maximum loss is Rs 37.

Q 76.

Hedging would ensure that your profits are always on the higher side compared to an unhedged position - State True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

Hedging controls your losses but also controls your profits. It does not ensure higher profits.

An open position can give you more profits or more losses.

Q 77.

If the tick size of a scrip is 5 paise and the spot price of that scrip is Rs. 70, what will be the next upward tick ?

- 69.95
- 70.005
- 70.05
- 70.50

✓ CORRECT ANSWER

Explanation:

Tick size is the minimum move allowed in the price quotations. So a 5 paise tick size will lead to a upward tick of .05.

Q 78.

Forward contracts are OTC contracts - True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

The forward contracts are negotiated between two parties, the terms and conditions of contracts are customized as per their requirements. These are OTC contracts.

Q 79.

Mr Prashant has bought one lot of ABC futures for Rs 75 (lot size 2000) expecting that this share will go up. But he also wants to protect himself against any loss of more than Rs 3000. What should he do ?

- Place a stop loss sell order at Rs 74
- Place a stop loss sell order at Rs 73.50
- Place a buy order for 2000 shares of ABC at Rs.76.50 per
- None of the above

✗ WRONG ANSWER

CORRECT ANSWER:

Place a stop loss sell order at Rs 73.50

Explanation:

Mr. Prashant has bought one lot ie. 2000 shares and does not want to have a loss of more than Rs 3000. So 3000 / 2000 = Rs 1.50. So per share he should not lose more than Rs 1.50.

His buying price is Rs 75. So 75 - 1.50 = 73.50 will be his stop loss price price.

When the share falls to Rs 73.50 , he will stand to lose Rs 3000.

Q 80.

The settlement in futures contract happen only in __________ .

- Cash
- Physical Delivery
- Cash or Delivery
- None of the above

✗ WRONG ANSWER

CORRECT ANSWER:

Cash or Delivery

Explanation:

SEBI has now permitted physical deliveries also.

Q 81.

You have a short position in LPQ Stock futures at Rs 350 (one lot size is 500 shares) and you have made a profit of Rs 28000. To do this you will have to :

- Sell one lot ar Rs 406
- Sell one lot at Rs 294
- Buy one lot at 406
- Buy one lot at Rs 294

✗ WRONG ANSWER

CORRECT ANSWER:

Buy one lot at Rs 294

Explanation:

Profit = Rs 28000 , Lot size = 500 , So per share profit = 28000/500 = Rs 56

Since he has a short position, he will be in a profit if the share falls and he buys at a lower price.

So the price has to fall by Rs 56 from Rs 350 = Rs 294

Q 82.

OTC derivative market is less regulated market because these transactions occur in private among qualified counterparties, who are supposed to be capable enough to take care of themselves. True or False

- False
- True

✓ CORRECT ANSWER

Explanation:

In an OTC market, no exchange is involved.

Q 83.

Theta is ___________.

- is the change in option price given a one percentage point change in the risk-free interest rate
- a measure of the sensitivity of an option price to changes in market volatility
- the change in option price given a one-day decrease in time to expiration.
- speed with which an option moves with respect to price of the underlying asset.

✓ CORRECT ANSWER

Explanation:

Theta is the change in option price given a one-day decrease in time to expiration. It is a measure of time decay.

Q 84.

The Over the counter options are ____________ .

- calculated based on the delta.
- standardised options
- customised options
- always in the money options

✓ CORRECT ANSWER

Explanation:

Over the Counter options are made as per the needs of the trading parties - so they are customised.

Future options are standardised as per the rules of stock exchange.

Q 85.

Mr. X does not hold any shares of ABC company so he cannot write a CALL option on it - State True or False?

- True
- False

✓ CORRECT ANSWER

Explanation:

Mr. X can write (i.e., sell) a call option on ABC company even if he does not hold the shares. This is known as naked call writing or uncovered call writing.

In naked call writing, the seller does not own the underlying shares.

iowever, It is a high-risk strategy, because if the stock price rises sharply, Mr. X would be obligated to deliver the shares at the strike price, potentially incurring unlimited losses.

Q 86.

An equity index option like NIFTY OPTION is a____________.

- Treasury instrument
- Debt instrument
- Derivative Product
- Cash market product

✓ CORRECT ANSWER

Explanation:

Nifty options are derived from the NSE index ie. Nifty and so its an derivative product.

Q 87.

If a trader buys a put option with a higher strike price and sells a put option with a lower strike price, both of the same underlying then this strategy is called ________ .

- Bullish Spread
- Bearish Spread
- Straddle
- Butterfly spread

✓ CORRECT ANSWER

Explanation:

Bearish Vertical Spread using puts - The trader is bearish on the market and so goes long in one put option by paying a premium. Further, to reduce his cost, he shorts another low strike put and receives a premium.

Q 88.

A trader sells a lower strike price CALL option and buys a higher strike price CALL option, both of the same scrip and same expiry date. This strategy is called _______ .

- Bearish Spread
- Bullish Spread
- Long term Investment
- Butterfly

✕ WRONG ANSWER

CORRECT ANSWER:

Bearish Spread

Explanation:

The trader **sells a lower strike price CALL option** (receives a premium) and **buys a higher strike price CALL option** (pays a premium).

Since the lower strike price option has a higher premium, the trader receives a **net credit** initially.

This strategy benefits when the stock **declines or remains below the lower strike price**, making it a **Bear Call Spread**, which is a **Bearish Spread** strategy.

Q 89.

It is recommended but not compulsory that all Stock Exchanges of India have a uniform settlement cycle. True or False ?

- False
- True

✕ WRONG ANSWER

CORRECT ANSWER:

True

Explanation:

Uniform settlement cycle across all exchanges is recommended but the exchanges can fix their settlement cycle as per their wish and what suits them best.

Q 90.

A low level of initial margin increases the possibility of defaults of a stock broker - State True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

A broker collects the initial margins from his clients as per their positions and pays to the exchange.

A low level of initial margin collected from clients can lead to defaults of clients in case of major movement of stock prices. So if clients defaults, it also increases the chances of the broker defaulting.

Q 91.

The daily settlement of all open positions in futures contract is called ________ .

- Exercising of the futures contract
- Mark to Market settlement
- VaR settlement
- None of the above

✓ CORRECT ANSWER

Explanation:

In futures market, the contracts have maturity of several months. So to safe gaurd against substantial rise /fall in the prices, profits and losses are settled on day-to-day basis – called mark to market settlement.

The exchange collects these margins from the loss making traders and pays to the gainers on day-to-day basis.

Q 92.

The Derivative markets mostly comprises of –

- Long term investors
- Hedgers
- Speculators
- Both 2 and 3

✓ CORRECT ANSWER

Explanation:

Long term investors buy stocks in Cash market for delivery. Hedgers and Speculators are active in the derivative markets.

Q 93.

As per the Income Tax Act, any loss on derivatives transaction can be set-off against _____ income in the same year.

- Any other business
- House property
- Salary
- Capital gains

✕ WRONG ANSWER

CORRECT ANSWER:

Any other business

Explanation:

Finance Act, 2005 implies that income or loss on derivative transactions which are carried out in a "recognized stock exchange" is not taxed as speculative income or loss. Thus, loss on derivative transactions can be set off against any other income during the year (except salary income).

Q 94.

Delta is the change in option price given a one-day decrease in time to expiration - State True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

The most important of the 'Greeks' is the option's is "Delta". This measures the sensitivity of the option value to a given small change in the spot price of the underlying asset. It may also be seen as the speed with which an option moves with respect to price of the underlying asset.

Q 95.

_______ measure of the sensitivity of an option price to changes in market volatility.

- Rho
- Theta
- Gamma
- Vega

✓ CORRECT ANSWER

Explanation:

Vega represents the amount of price changes in an option in reaction to a 1% change in the volatility of the underlying asset.

Volatility measures the amount and speed at which price moves up and down, and is often based on changes in recent, historical prices in a trading instrument. Vega changes when there are large price movements (increased volatility) in the underlying asset, and falls as the option approaches expiration.

Vega = Change in an option premium/ Change in volatility

Q 96.

Clearing Corporation acts as a legal counterparty to all trades on F&O segment and also guarantees their financial settlement. True / False.

- True
- False

✓ CORRECT ANSWER

Explanation:

Clearing Corporation or the Clearing House is responsible for clearing and settlement of all trades executed on the F&O Segment of the Exchange.

Clearing Corporation acts as a legal counterparty to all trades on this segment and also guarantees their financial settlement.

The Clearing and Settlement process comprises of three main activities, viz., Clearing, Settlement and Risk Management.

Q 97.

Arbitrage is a tool used to protects ones portfolio against any downturn by going short in index. True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

To protect ones portfolio against any downturn by going short in index is called Hedgeing.

Arbitrage is a tool to use price differences in different markets to make a profit.

Q 98.

A call option is said to be ____________, when spot price is higher than strike price.

- At the money
- Out of the money
- In the money
- European

✕ WRONG ANSWER

CORRECT ANSWER:

In the money

Explanation:

A call option with a strike price that is lower than the market price of the underlying asset, or a put option with a strike price that is higher than the market price of the underlying asset.

For example, consider a stock that is trading at Rs 100. For such a stock, call options with strike prices below Rs 100 would be In-the-money calls (ie Rs 80, Rs 90 calls) while put options with strike prices above Rs 100 (Rs 110 , Rs 120 calls etc.)would be In-the-money puts.

For easy understanding, those calls or puts which are profitable are In-the-Money.

Q 99. In index futures, if the near leg of the calendar spread transaction expires then the farther leg becomes a regular open position.

- True
- False

✓ CORRECT ANSWER

Explanation:

Calendar spread means an options or futures spread established by simultaneously entering a long and short position on the same underlying asset but with different delivery months.

In the above question, lets assume a trader has gone long in index options in current month and short in index options in third month. Incase he does not close his position by the end of current month, his current month option will expire and the third month option contract will become an open position as there is no opposite option contract in his account.

Q 100. **A short seller ____________.**

- Must own the share
- Must own at least 75% of the shares
- Need not own the shares
- None of the above

✓ CORRECT ANSWER

Explanation:

Short Selling means the selling of a security that the seller does not own.

Short sellers assume that they will be able to buy the stock at a lower amount than the price at which they sold short.