Q 1.

Can Professional Clearing members act only on behalf of institutional clients ?

- Yes
- No

✓ CORRECT ANSWER

Explanation:

Professional clearing member clears the trades of his associate Trading Member and institutional clients.

Q 2.

Trading members shall maintain a higher level of Book networth than the clearing members - State True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

Clearing Members have to maintain higher book networth than trading members.

Q 3.

If you have a long or short position in a futures contract, this can be closed by initiating a reverse trade - True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

Closing a position means either buying or selling a contract, which essentially results in reduction of client's open position (long or short). A client is said to be closed a position if he sells a contract which he had bought before or he buys a contract which he had sold earlier.

Q 4.

The idea and economic rational of introducing forward contracts is to________ .

- help arbitrage
- help trading
- help hedgeing
- both 1 and 3

✕ WRONG ANSWER

CORRECT ANSWER:

help hedgeing

Explanation:

The essential idea of entering into a forward is to fix the price and thereby avoid the price risk. By entering into forwards, one is assured of the price at which one can buy/sell an underlying asset.

Thus Forward contracts are basically meant for hedgeing / managing the risks.

Q 5.

As per Accounting Standards, the initial margin paid by an option seller is shown under ___________ in the balance sheet

- Bad Debts
- Fixed Assets
- Current Assets
- Current Liabilities

✕ WRONG ANSWER

CORRECT ANSWER:

Current Assets

Explanation:

The seller/ writer of the option is required to pay initial margin for entering into the option contract and its should be debited to an appropriate account, say, "Equity Index/ Stock Option Margin Account".

In the balance sheet, such account should be shown separately under the head "Current Assets".

Q 6.

A person who is bullish and a payer of premium is a _____________.

- buyer of call option
- seller of call option
- buyer of put option
- seller of put option

✓ CORRECT ANSWER

Explanation:

A buyer of a Call is bullish and believes that the price will rise. He pays a premium which is his maximum loss but the profits can be unlimited.

Q 7.

Investor Mr. X wants to sell 11 contracts of Feb series at Rs.6300 & investor Mr. Y wants to sell 13 contracts of March series at Rs.6450. Lot size is 50 for both these contracts. The initial margin is fixed at 6%. How much initial margin is required to be collected from both these investors(sum of initial margin of X and Y) by the broker?

- Rs 251550
- Rs 459450
- Rs 640000
- Rs 374900

✓ CORRECT ANSWER

Explanation:

Margin from Mr. X

Rs 6300 X 11 contracts X 50 (lot size) X 6% = 207900

Margin from Mr. Y

Rs 6450 X 13 contracts X 50 (lot size) X 6% = 251550

Total Margin = 207900 + 251550 = 459450.

Q 8.

A trader has taken a short position of one contract in Sept ABC futures (contract multiplier 50) at a price of Rs.1800. When he closed this position after a few days, he realized that he has made a profit a Rs.5000. Which of the following closing actions would have enabled him to generate the profit?(Please ignore brokerage costs) .

- Buying 1 Sept ABC futures contract at 1900
- Buying 1 Sept ABC futures contract at 1700
- Selling 1 Sept ABC futures contract at 1900
- Selling 1 Sept ABC futures contract at 1700

✓ CORRECT ANSWER

Explanation:

To make a profit of Rs 5000, he has to earn Rs 100 per share (5000 / 50 (lot size) = 100)

Since he has gone short, he will make a profit when the price falls and he buys at the reduced price.

He has sold at Rs 1800, so when he buys back at Rs 1700 he make Rs 100 profit per share.

Rs 100 X 50 (Lot size) = Rs 5000 profit.

Q 9.

The option which gives the holder a right to buy the underlying asset on or before a particular date for a certain price, is called as _________

- European put option
- American put option
- American call option
- European call option.

✗ WRONG ANSWER

CORRECT ANSWER:

American call option

Explanation:

In case of American options, buyers can exercise their option any time before the maturity of contract.

In case of European options, owner of such option can exercise his right only on the expiry date/day of the contract.

Q 10.

A call option gives the holder a right to buy how much of the underlying from the writer of the option?

- The specified quantity or less than the specified quantity
- The specified quantity or more than the specified quantity
- Only the specified quantity
- None of the above

✓ CORRECT ANSWER

Explanation:

Only the specified quantity as per the lot size of the option contract.

Q 11.

Which of the following is closest to the forward price of a share if cash price is Rs 425, forward contract maturity=12 months from date, market interest rate 12% pa.

- 425
- 482
- 476
- 437

✓ CORRECT ANSWER

Explanation:

12 months maturity means full one year of interest cost.

So 12% of 425 = 425 x 12 / 100 = 51

425 + 51 = 476 is closest to the one year forward price

Q 12.

A trader is very bearish on specific companies. However he is bullish on the market as a whole. Which of the following is the most appropriate strategy to take advantage from this view?

- sell the shares of those specific companies in futures and also sell index futures
- sell the shares of those specific companies in futures and buy index futures
- buy the shares of those specific companies in futures and sell index futures.
- do nothing

✓ CORRECT ANSWER

Explanation:

The trader is **bearish** on specific companies : This means they expect the prices of these companies to fall. So, they should **sell the futures** of these specific companies.

The trader is **bullish** on the overall market : This means they expect the market index to rise. So, they should **buy index futures** to benefit from the market's upward movement.

This strategy allows the trader to **profit from the decline in specific stocks while benefiting from the overall market's rise.**

Q 13.

The concept in which the derivative trader gets a higher exposure for the small portion of margin amount brought by him is called as ___________ .

- Arbitrage
- Leverage
- Delta Hedgeing
- Speculation

✓ CORRECT ANSWER

Explanation:

A trader in the future's market pays a relatively small margin for market exposure in relation to the contract value. This is known as leverage.

Q 14.

Which of the following problem(s) that exist in the forward contracts are solved by the Futures contracts ?

- a central agency for monitoring
- settlement problems
- counter party risk
- all of the above

✓ CORRECT ANSWER

Explanation:

Forwards are bilateral over-the-counter (OTC) transactions where the terms of the contract, such as price, quantity, quality, time and place are negotiated between two parties to the contract. There is a risk of an economic loss from the failure of counterparty to fulfil its contractual obligation.

Futures markets were innovated to overcome the limitations of forwards. A futures contract is an agreement made through an organized exchange. The clearing corporation associated with the exchange guarantees settlement of these trades.

Q 15.

Loss incurred on derivatives transactions can be carried forward for a period of 12 assessment years - State whether True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

Loss incurred on derivatives transactions which are carried out in a recognized stock exchange can be carried forward for a period of 8 assessment years.

Q 16.

A short position in a CALL option can be closed out by taking a long position in a PUT option with same exercise date and exercise price - State True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

A short position in a CALL option can be closed out by taking a long position in a same CALL option with same exercise date and exercise price.

Q 17.

Which of the following complaints can be taken up by the exchange for redressal ?

- Claims for notional loss, opportunity loss for the disputed period or trade
- Complaints pertaining to trades not executed on the Exchange by the complainant
- Claims of sub-broker/authorized persons for private commercial dealings with the trading member
- Excess Brokerage charged by Trading Member / Sub-broker

✓ CORRECT ANSWER

Explanation:

Exchanges provide assistance if the complaints fall within the purview of the Exchange and are related to trades that are executed on the Exchange Platform. Excess Brokerage charged by Trading Member / Sub-broker comes under this assistance.

Q 18.

Mr. Ravi purchases 10 call option on stock at Rs. 20 per call with strike price of Rs 350. If on exercise date, stock price is Rs. 310, ignoring transaction cost, Mr. Ravi will choose___________

- to exercise the option
- not to exercise the option
- may or may not exercise the option depending on whether he likes the company or not
- may or may not depending on whether he is in town or not

✓ CORRECT ANSWER

Explanation:

Mr. Ravi has bought a Call Option assuming that the price will rise.

The price has fallen and he is in a loss. So he will choose not to exercise his option.

His loss is restricted to the premium he has paid.

Q 19.

Trading members are required to possess a higher level of Capital Adequacy (as per balance sheet) than clearing members- True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

Clearing Members are permitted to settle their own trades as well as the trades of the other non-clearing members known as Trading Members who have agreed to settle the trades through them.

Thus the Capital Adequacy requirement is higher for Clearing Members.

Q 20.

A trader sold a call option on a share of strike price Rs. 200 and received a premium of Rs. 12 from the option buyer. What can be his maximum loss on this position ?

- Rs 200
- Rs 188
- Rs 12
- Unlimited

✗ WRONG ANSWER

CORRECT ANSWER:

Unlimited

Explanation:

In this scenario, the trader sold a call option (i.e., wrote a call), meaning he has the obligation to sell the stock at the strike price (Rs. 200) if the option is exercised.

If the market price of the stock stays at or below 200, the option won't be exercised, and the trader keeps the premium (Rs.12) as profit.

- **If the stock price rises above Rs. 200, the option will be exercised, and the trader must sell the share at Rs. 200.**
- **If the stock rises significantly (e.g., Rs. 250, 300...), the trader still has to sell at Rs. 200, incurring a loss that increases as the stock price increases.**

There is no upper limit to how high the stock price can go. Since the trader must sell at Rs. 200, his loss is theoretically unlimited, reduced by the premium received (Rs. 12).

Q 21.

Securities Transaction Tax (STT) is levied on ________.

- Purchase of Equity Shares
- Sale of Derivatives
- Purchase of Derivatives
- Only 1 and 2

✗ WRONG ANSWER

CORRECT ANSWER:

Only 1 and 2

Explanation:

STT is levied on transactions involving equity, derivatives and equity oriented mutual funds.

It is levied on purchase and sale of equity shares.

STT is applicable only on all SELL transactions for futures and option contracts and not on purchase transactions of futures and options (derivatives).

Q 22.

The contract size in futures market is defined by ____________

- The Stock Brokers
- The Stock Exchange
- The Parties to the contract
- SEBI

✗ WRONG ANSWER

CORRECT ANSWER:

The Stock Exchange

Explanation:

The Contract size (Lot size) is specified by the exchange. (minimum value of Rs 5,00,000).

Q 23.

In Options - the seller of an contract pays an upfront premium at the time of entering into the contract - State whether True or False ?

- True
- False as the premium is paid on maturity
- False as the premium is paid by the buyer and not the seller
- None of the above

✕ WRONG ANSWER

CORRECT ANSWER:

False as the premium is paid by the buyer and not the seller

Explanation:

In Options (Both Call and Put), the premium is paid by the buyer of options and not the seller of options. The seller receives the premium.

Q 24.

In case of _______ , the gain or loss is realised on daily basis due to mark-to-market mechanism.

- Swaps
- Forward contracts
- Future contracts
- Option contracts

✓ CORRECT ANSWER

Explanation:

In futures contracts, the mark-to-market (MTM) mechanism is used to adjust the gains or losses on a daily basis. This means that each day, the profit or loss on the futures position is calculated based on the day's closing price, and the margin account is credited or debited accordingly.

Swaps and forward contracts are OTC (Over-the-Counter) products and do not have daily mark-to-market adjustments.

Options may involve premium payments but are not settled daily by MTM in the same way futures are.

Q 25.

A calendar spread in index futures is treated as _________ in a far month contract when the near months contract is expired.

- long position
- hedged position
- naked position
- Short position

✓ CORRECT ANSWER

Explanation:

A calendar spread becomes a naked/open position, when the near month contract expires or either of the legs of spread is closed.

Q 26.

The main objective of derivatives is to enable market participants to ___

- Trade
- Manage the risks
- Speculate
- Arbitrage

✓ CORRECT ANSWER

Explanation:

Derivatives market helps in transfer of various risks from those who are exposed to risk but have low risk appetite to participants with high risk appetite. For example, hedgers want to give away the risk where as traders are willing to take risk.

Q 27.

Higher the interest rate, the higher the CALL option premium - State True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

High interest rates will result in an increase in the value of a CALL option and a decrease in the value of a PUT option.

Q 28.

A Buyer or holder of the option is the party to the contract who has __________.

- the obligation but not the right
- the right but not the obligation
- the right and the obligation
- None of the above

✓ CORRECT ANSWER

Explanation:

A Call option gives the buyer the right, but not the obligation to buy the underlying at the strike price.

A put option gives the buyer of the option the right, but not the obligation, to sell the underlying at the strike price.

Q 29.

The Trading members on the exchanges derivatives segment are not required to be registered with SEBI.- State whether True or False ?

- False
- True

✓ CORRECT ANSWER

Explanation:

SEBI has powers for Registering and regulating the working of stock brokers, sub–brokers, etc. A trading member on both the segments i.e. Cash and Derivative segments has to register with SEBI and Stock Exchanges.

Q 30.

A unique principle of futures trading makes trading possible for those who do not want to make or take delivery of underlying assets. Which is that principle ?

- Traded on a recognised exchange
- Price uncertainty
- Standardisation of contracts
- Cash settlement

✓ CORRECT ANSWER

Explanation:

In a cash settlement method, the parties to a transaction settle by receiving or paying the gains or losses related to a contract in cash (ie. money transfer)

Q 31.

On the National Stock Exchange, for its index futures, what would be the opening day of its April series?

- Last Friday of March month
- Last Friday of April month
- Last Friday of Jan month
- Last Friday of February month

✕ WRONG ANSWER

CORRECT ANSWER:

Last Friday of Jan month

Explanation:

There are 3 series of index futures active all the time. A new series is introduced as the older series expires.

Lets assume the Jan, Feb and March series are active currently.

On the last Thursday of Jan, the Jan series will expire.

So that next day ie. on the last Friday of Jan, the April series will be activated. This will be the opening day for April series. Thus we will have three series active ie. Feb, March and April.

Q 32.

Operational risks include losses due to______

- natural calamities
- inadequate contingency planning
- power failure
- all of the above

✓ CORRECT ANSWER

Explanation:

An operational risk is defined as a risk incurred by an organisation's internal activities. So losses due to fraud, inadequate documentation, inadequate disaster management, inadequate contingency planning, improper execution are all Operational risks.

Q 33.

The total number of outstanding / unsettled contracts in the market, at any point of time is known as "OPEN INTEREST" - True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

An open interest is the total number of contracts outstanding (yet to be settled) for an underlying asset.

Q 34.

The clearing corporation may utilize the client account margins deposited with it for fulfilling the dues which a clearing member may owe to the clearing corporation for the trades on the clearing members own account. State True or False ?

- True
- False

✕ WRONG ANSWER

CORRECT ANSWER:

False

Explanation:

Clients money cannot be used by the Clearing or Trading member for his trades.

Q 35.

A clearing member has deposited eligible liquid assets of Rs.75 lacs. The exchange has minimum liquid net worth requirement of Rs. 50 lakhs. The member has not entered into any transactions so far. What is the margin available for trading. (in lakhs)

- 75
- 50
- 25
- 125

✕ WRONG ANSWER

CORRECT ANSWER:

25

Explanation:

Liquid Networth is defined as Liquid Assets minus Initial Margin.

In above case he has deposited Rs 75 lakhs as liquid assets. Rs 50 lakhs is the requirement, so the balance Rs 25 lakhs will be used as initial margin.

Q 36.

Is it true that an efficient cash market is required for an efficient futures market ? Yes or No ?

- Yes
- No

✕ WRONG ANSWER

CORRECT ANSWER:

Yes

Explanation:

The prices of futures are derived from the underlying cash market prices. So an efficient cash market is required for an efficient futures market.

Q 37. If the price of a future contract increases, the mark to market margin account of the holder of the short position in that contract is credited for the gain. State whether True or False ?

- True
- False

✕ WRONG ANSWER

CORRECT ANSWER:

False

Explanation:

In a short position, if the price increases, there is a loss. So, the mark to market margin will be debited.

Q 38. The absolute amount of minimum capital adequacy requirement for derivative brokers is same as that for cash market - True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

The absolute amount of minimum capital adequacy requirement for derivative brokers/dealers has to be much higher than for cash market.

Further, if a broker/dealer is involved both in cash and futures segments, or in several exchanges, the capital adequacy requirement should be satisfied for each exchange/segment separately.

Q 39. Change in option premium for a unit change in ________ is known as Rho.

- market volatility
- Price of the underlying asset
- Risk free interest rate
- liquidity

✓ CORRECT ANSWER

Explanation:

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

Q 40. The 'Ask' price is the price at which ________ .

- the clearing corporation settles the transaction
- the trader is prepared to sell the share
- the trader is prepared to purchase the share
- the trader is prepared to either buy or sell the share

✕ WRONG ANSWER

CORRECT ANSWER:

the trader is prepared to sell the share

Explanation:

BID-ASK price means Buyer and Seller price - eg The BID-ASK price of a stock as seen on the trading screen is Rs 100 - 101

So Ask price is the price at which the trader is prepared to sell the share (i.e. Rs 101 in above example)

The **'Ask' price** (or **Offer price**) represents the lowest price a seller is willing to accept for a security, while the **'Bid' price** is the highest price a buyer is willing to pay.

Q 41. In India, futures and options on individual stocks are allowed on__________.

- A few selected stocks only
- All stocks listed on any of the exchanges
- All stocks with stock price of more than Rs.100 or Rs 50 in A and B group resp.
- Only those stocks which are simultaneously listed on all the stock exchange in India

✓ CORRECT ANSWER

Explanation:

Only those stocks are included to be traded in the derivatives segment which meet the SEBI / Exchange criteria for derivatives trading.

Q 42. Higher the price volatility, higher would be the initial margin requirement - State True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

If the price of a stock is very volatile, the risk of losses increases. So the Stock Exchanges collect higher initial margins in such cases.

Q 43. In a derivative exchange, the net worth requirement for a clearing member is higher than that of a non-clearing member (ie. a member who only clears his trades).

- True
- False

✕ WRONG ANSWER

CORRECT ANSWER:

True

Explanation:

Clearing Member Eligibility Norms : Net-worth of at least Rs.300 lakhs.

The Net-worth requirement for a Clearing Member who clears and settles only deals executed by him is Rs. 100 lakhs.

Q 44. **The strategy of buying a put option on a stock you are owning is known as _______ .**

- Calendar spread
- Aggressive put
- Protective put
- Straddle

✓ CORRECT ANSWER

Explanation:

A Protective Put strategy involves buying a put option on a stock that you already own to hedge against potential downside risk.

- **If the stock price falls, the put option gains value, offsetting losses in the stock.**
- **If the stock price rises, the put option expires worthless, but the investor benefits from stock appreciation.**
- **This strategy is commonly used by investors who want to protect their portfolio while still participating in potential upside gains.**

Q 45. **All active members of the Exchange are required to make initial contribution towards Trade Guarantee Fund of the Exchange - State True or False ?**

- True
- False

✓ CORRECT ANSWER

Explanation:

Main objectives of Trade Guarantee Fund (TGF):

- To guarantee settlement of bonafide transactions of the members of the exchange.

- To inculcate confidence in the minds of market participants.

- To protect the interest of the investors in securities.

All active members of the Exchange are required to make initial contribution towards Trade Guarantee Fund of the Exchange.

Q 46. **An increase in the interest rates will lead to _________.**

- increase the premium on put options
- decrease the premium on put options
- No effect on put options
- Expiration of the option automatically

✗ WRONG ANSWER

CORRECT ANSWER:

decrease the premium on put options

Explanation:

An increase in interest rates generally leads to a decrease in put option premiums due to the following factors:

Higher interest rates reduce the attractiveness of holding cash or risk-free assets, making put options (which provide downside protection) less valuable.

The cost-of-carry effect—since put options involve selling the underlying asset, the higher interest rate increases the opportunity cost of holding short positions, thus lowering demand for puts.

Call options, on the other hand, tend to see an increase in premiums when interest rates rise due to lower borrowing costs for leveraged equity investments.

Q 47. **In a forward contract, the party that's agrees to sell the underlying asset on a certain specified date for a certain specified price is said to have assumed_______**

- A long position
- a square off position
- a short position
- a trade off position

✗ WRONG ANSWER

CORRECT ANSWER:

a short position

Explanation:

In a forward contract, there are two parties:

- One party agrees to buy the underlying asset in the future → Takes a Long Position.

- The other party agrees to sell the underlying asset in the future → Takes a Short Position.

Since the question states that the party agrees to sell the asset at a future date for a fixed price, that party has taken a short position.

Q 48. **Mr. Hitesh is a trading member. One of his clients has purchased 12 contracts of March series index futures and another client as has sold 10 contracts of March series index futures. The exposure of Mr. Hitesh as trading member is ________.**

- grossed up at 22 contracts
- netted out at 2 contracts
- maximum of 10 and 12 which is 12 contracts
- The Exchange will decide to either gross up or net out the exposure depending upon his past record

✓ CORRECT ANSWER

Explanation:

The open position of all the clients of a trading member are grossed up to arrive at the total exposure of the trading member.

Q 49.

In case of Call options, if the market price is less than the exercise (strike) price, the option will __________.

- expire worthless
- seller of the option will exercise it
- will definitely get exercised
- none of the above

✕ WRONG ANSWER

CORRECT ANSWER:

expire worthless

Explanation:

A **Call Option** gives the holder (buyer) the right, but not the obligation, to buy an asset at the **exercise (strike) price** before or at expiration.

- If the **market price** is **less than the strike price**, the option holder would **not** exercise the option because they can buy the asset at a lower price in the open market.

- As a result, the **option expires worthless**, and the option seller (writer) keeps the premium received.

Q 50.

Does the difference between exercise price of the option and spot price affects option premium ? State Yes or No.

- Yes
- No

✓ CORRECT ANSWER

Explanation:

The Option premium is a combination of intrinsic value and time value and other factors.

The Intrinsic value is difference between Spot and Exercise Price (Strike Price).

Exercise price remains constant whereas the Spot price fluctuates.

So the option premium will fluctuate as per the movement in Spot price.

Q 51.

A high initial margin level improves solvency & financial capability of the clearing corporation - True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

Higher initial margin collection from trading members reduces the chances of their defaults thus improving the solvency & financial capability of the clearing corporation.

Q 52.

An American put option gives the buyer the right but not the obligations to sell to the writer an underlying asset at a specified price on or before the expiry date - State whether True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

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

The owner of European option can exercise his right only on the expiry date/day of the contract.

Q 53.

State True or False - A futures contract is usually referred to by its delivery month.

- True
- False

✓ CORRECT ANSWER

Explanation:

A key characteristic of a futures contract that designates when the contract expires and when the underlying asset must be delivered. The exchange on the futures contract is traded will also establish a delivery location and a date within the delivery month when the delivery can take place.

Not all futures contracts require physical delivery of a commodity, and many are settled in cash.

Delivery Month is also referred to as "contract month."

Q 54.

Mr A sold a put option of strike Rs.400 on PQR stock for a premium of Rs.32. The lot size is 500. On the expiry day, PQR stock closed at Rs. 350. What is his net profit or loss?

- -25000 (Loss)
- -9000 (Loss)
- 9000 (Profit)
- 25000 (Profit)

✕ WRONG ANSWER

CORRECT ANSWER:

-9000 (Loss)

Explanation:

Mr. A sold a PUT option, that means he has a bullish or neutral view on PQR stock.

However, PQR stock has fallen by Rs 50 (400 - 350).

Which means he has lost Rs 50.

Since he has sold a PUT, he will receive the premium which is Rs 32.

So his net loss will be Rs 50 (Loss) - Rs 32 (Premium Recd) = Rs 18

Total Loss = Rs 18 x 500 (lot size) = Rs. 9000

Q 55.

In an Index Futures contract, the tick size is 0.2 of an index point & the index multiple is Rs 50, then 'a tick' is valued at_______.

- Rs 50
- Rs 100
- Rs 10
- Rs 2.50

✕ WRONG ANSWER

CORRECT ANSWER:

Rs 10

Explanation:

Rs 50 X 0.2 = Rs 10.

Each tick movement will result in profit or loss of Rs 10 for the Index buyer or seller resp.

Q 56.

The securities which are placed by clearing members with the clearing corporation as a part of liquid assets are __________ .

- marked to market on a periodical basis
- is not marked to market as they are blue chip shares
- may or may not be marked to market depending on the decision of the Stock Exchange
- None of the above

✓ CORRECT ANSWER

Explanation:

As per Prof. J. R. Verma Committee recommendations the securities placed with the Clearing Corporation shall be marked to market on a periodical basis (weekly).

Q 57.

Contract month means______

- Month in which the transaction is done
- Month of expiry of the futures contract
- Month of beginning of the futures contract
- None of the above

✓ CORRECT ANSWER

Explanation:

Contract month is the maturity month of the contract.

For eg - A trader may buy a March month contract in January.

So March will be the contract month.

Q 58.

Initial margin is calculated based on ____

- Average price movement in the last 5 working days
- Value-At-Risk (VAR) based margining.
- fixed at 25% for most of the scrips and 35% for volatile scrips
- As per the The Black & Scholes Model

✓ CORRECT ANSWER

Explanation:

Initial margin requirements are based on 99% value at risk over a one day time horizon.

Q 59.

Daily 'Trading Price Limits' define the maximum percentage by which the price of a future contract can rise above or fall below the previous days settlement price - State whether True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

A price limit is the maximum range that a futures contract is allowed to move up or down within a single day. Price limits are re-calculated every day. When price limits are reached in one day, the variable price limits might be implemented to expand the initial limits to the variable amount for the next trading day.

Q 60.

For portfolio hedging by institutions and mutual funds, index based derivatives are more suitable and are much more cost effective than derivative based on individual stocks - State True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

A portfolio consists of many stocks and not all stocks are available for trading in the futures/derivatives market. Also many stock futures have low volumes. Therefore institutions use index based derivatives for hedging. Although it may not give a perfect hedge but with proper choice of index futures, a good hedge can be created.

Q 61.

A Trading cum Clearing Member is responsible to the exchange for his transactions & also for the position of his trading members under him - True or False ?

- False
- True

✓ CORRECT ANSWER

Explanation:

Trading cum Clearing Member: This is a Clearing Member (CM) who is also a Trading Member (TM) of the exchange. Such CMs may clear and settle their own proprietary trades, their clients' trades as well as trades of other Trading Members.

Q 62.

A default by a member in the derivatives segment will be not be treated as default in the cash segments of that exchange - State True or False ?

- False
- True

✕ WRONG ANSWER

CORRECT ANSWER:

False

Explanation:

A default by a member in the derivatives segment will be treated as default in all segments of that exchange and as default on all exchanges where he is a member.

Q 63.

Does trading in derivatives become expensive due to high margins ? State Yes or No.

- Yes
- No

✓ CORRECT ANSWER

Explanation:

Cost components of futures transaction include margins, transaction costs (commissions), taxes etc.

So higher the margins more expensive the trading.

Q 64.

___________ risk is the component of price risk that is unique to particular events of the company and/or industry and this risk could be reduced to a certain extent by diversifying the portfolio.

- Unsystematic Risk
- Systematic Risk
- Arbitrage Risk
- Interest Rate Risk

✕ WRONG ANSWER

CORRECT ANSWER:

Unsystematic Risk

Explanation:

The risk that is specific to an industry or firm. Examples of unsystematic risk include losses caused by labor problems, nationalization of assets etc. Also called diversifiable risk

Q 65.

The Clearing of trades on a stock exchange can be done by_________.

- by the trading members
- by the clearing members
- both by clearing members and trading members
- none of the above

✕ WRONG ANSWER

CORRECT ANSWER:

by the clearing members

Explanation:

A Trading member cannot clear trades. A Clearing member or a Trading cum Clearing member can clear trades.

Q 66.

In an 'In the money' PUT option____

- strike price would be lower than the market price
- exercise price would be equal to the market price
- strike price would be higher than the market price
- strike price would be zero

✕ WRONG ANSWER

CORRECT ANSWER:

strike price would be higher than the market price

Explanation:

An 'In the Money' (ITM) option is one that would lead to a positive payoff if exercised immediately.

For a PUT option (which gives the holder the right to sell an asset at a specified price):

- **It is "in the money" when the strike price is higher than the market price.**
- **This is because the holder can sell at the higher strike price and buy at the lower market price, thus making a profit.**

Q 67.

Delta measures the expected change in the option premium for a unit change in ________.

- Volatility of underlying asset
- treasury interest rates
- time to option expiry
- spot price of underlying asset

✓ CORRECT ANSWER

Explanation:

Delta measures the sensitivity of the option value to a given small change in the price of the underlying asset.

Q 68.

In an Out-of-the Money (OTM) Put option ____

- Strike price would be higher than the market price
- Exercise price would be equal to the market
- Strike price would be lower than the market price
- strike price would be zero

✓ CORRECT ANSWER

Explanation:

A put option is said to be OTM when spot (market) price is higher than strike price.

A call option is said to be OTM, when spot (market) price is lower than strike price.

Q 69.

Diversification is used to control Systematic Risks - True or False ?

- True
- False

✕ WRONG ANSWER

CORRECT ANSWER:

False

Explanation:

Systematic Risk (also known as market risk) refers to the risk that affects the entire market or a broad range of assets — such as interest rate changes, inflation, recessions, geopolitical events, etc.

This type of risk cannot be eliminated through diversification because it impacts all investments across the board.

Diversification helps reduce unsystematic risk — which is specific to a particular company or industry, and can be controlled by spreading investments across various sectors or asset classes.

Therefore, diversification controls unsystematic risk, not systematic risk.

Q 70.

A trader sold on ABC Stock Futures Contract at Rs.354 & the lot size is 900. What is the traders profit or loss if he purchases the contract back at Rs.341 ?

- Rs 11700
- \- Rs 11700 (Loss)
- Rs 8300
- \- Rs 8300 (Loss)

✓ CORRECT ANSWER

Explanation:

He sold at Rs 354 and bought back at Rs 341 which means he has made a profit.

Rs 354 - Rs 341 = Rs 13

Rs 13 X 900 (Lot size) = Rs 11700 Profit

Q 71.

When would a trader make a profit on a short position of September futures?

- when he buys a October future at a lower price
- when he sells another September future at a lower price
- he square of this short position by buying the September future at lower price
- when he sells October futures at a lower price.

✓ CORRECT ANSWER

Explanation:

Profit can be made in a short position when the price falls and the same is bought back.

For eg - You sold a stock at Rs 100 ie. created a short position. When price falls to say Rs 80 and you buy it back, you make a profit of Rs 20.

In case of futures, you have to square up in the same expiry month.

Q 72.

Which of the following is not an application of indices?

- index derivatives
- exchange traded funds
- private equity funds
- Index funds

✓ CORRECT ANSWER

Explanation:

Private Equity Funds are not connected to any index nor are they listed on a stock exchange.

Q 73.

Options contracts are not symmetrical with respect to rights & obligations of the parties involved - State True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

The buyer of an option has a right but not the obligation in the contract. Also his risks are limited to the extent of premium paid.

The writer/seller of an option is one who receives the option premium and is thereby obliged to sell/buy the asset if the buyer of option exercises his right. His risks are unlimited.

Thus Option contracts are not symmetrical as the buyers and sellers have different obligations and risk factors.

On the other hand obligations and returns in Futures are symmetrical for both buyer and sellers.

Q 74.

Time value and intrinsic value of a call option are always either positive or zero- True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

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.

Time value also can never be negative.

Q 75.

The gain or loss is realized on daily basis due to mark to market mechanism in which of the following contracts ?

- Forward Contracts
- Contracts in Swaps
- Future market contracts
- Equity Cash Market contracts

✓ CORRECT ANSWER

Explanation:

Futures contracts have two types of settlements: (A) the mark-to-market (MTM) settlement which happens on a continuous basis at the end of each day, and (B) the final settlement which happens on the last trading day of the futures contract.

Q 76.

The market price of a share is Rs 120 and the 110 Call is quoted at Rs 24, what is the intrinsic value of this Call option ?

- Rs. 10
- Rs. 20
- Rs. 34
- Rs. 130

✓ CORRECT ANSWER

Explanation:

Option Premium consists of two variables - Intrinsic Value and Time Value.

In the above case, the cash market price is 120 and the strike price is Rs 110. So the Intrinsic value is Rs 10 (120 - 110). The balance of option premium (24 - 10) ie. Rs 14 is the time value.

Q 77.

The main logic behind Position limits is to_____________.

- prevent the market being unduly influenced by the activities of an individual/group of investors
- prevent the market being unduly influenced by Central Govt policies
- give direction to the market to move up or down as determined by SEBI
- to encourage high networth investors to provide direction to the market

✓ CORRECT ANSWER

Explanation:

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

Thus no investor can take an extra ordinary large position and influence the direction of a scrip / market.

Q 78.

The seller of the put option gains if price of underlying asset___________

- Decreases
- Increases
- Does not change
- Both 2 and 3

✗ WRONG ANSWER

CORRECT ANSWER:

Both 2 and 3

Explanation:

The seller of PUT option is either bullish or neutral. He gains the premium received if the underlying increases or remains flat.

Q 80.

Mr A buys a call option with lower strike price and sells another call option with higher strike price both on the same underlying share and same expiration date, the strategy is called______

- Bull Spread
- Bear Spread
- Butterfly Spread
- Calendar Spread

✓ CORRECT ANSWER

Explanation:

A bull call spread is constructed by buying a call option with a low strike price, and selling another call option with a higher strike price.

Q 81.

Futures trading is considered more risky than equity trading due to _________.

- high leverage
- High pressure
- high volatility
- high liquidity

✗ WRONG ANSWER

CORRECT ANSWER:

high leverage

Explanation:

Traders can trade in derivatives by paying a small margin (around 25 to 30% of the total contract value), This leverage increases the risk as the trader can take up positions beyond his capacity.

Q 82.

Institutional investors pay higher margins than the individual investors for derivatives trading - State True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

The margin requirement is same for both individual investors and institutional investors.

Q 83.

The derivatives segment of a Stock Exchange is under the same governing council as the cash segment - State True or False ?

- True
- False

✕ WRONG ANSWER

CORRECT ANSWER:

False

Explanation:

The derivatives exchange/segment has a separate governing council and no common members are allowed between the Cash segment Governing Board and the Derivatives segment Governing Council of the exchange.

Q 84.

You have bought a futures contract and the price drops, you will _________.

- Make a notional profit
- Make a notional loss
- given information is incomplete to arrive at a conclusion
- none of the above

✓ CORRECT ANSWER

Explanation:

For eg. You bought a futures contarct of 1000 shares at Rs 500. The price drops to Rs 480. Therefore there is a notional loss of Rs. 20 (500 - 480) x 1000 shares = Rs 20,000.

This is a notional loss and not an actual loss. The actual profit / loss will happen only when you square up the contract.

Q 85.

Stock price is _____________.

- same as in the near month future contract
- same as exercise price of an option
- same as strike price of an option
- the price of the underlying in the spot market

✓ CORRECT ANSWER

Explanation:

Stock price or Spot price means the current market price of that stock in the cash market.

Q 86.

A naked call option strategy means that the writer does not currently owns the underlying - State True or False ?

- True
- False

✓ CORRECT ANSWER

Explanation:

An options strategy in which an investor writes (sells) call options on the open market without owning the underlying security.

This strategy is sometimes referred to as an "uncovered call" or a "short call".

Q 87.

Factor(s) influencing option pricing include which of the following ?

- time to expiration
- volatility of the underlying shares
- Interest rates
- all of the above

✓ CORRECT ANSWER

Explanation:

There are five fundamental parameters on which the option price depends upon:

1) Spot price of the underlying asset

2) Strike price of the option

3) Volatility of the underlying asset's price

4) Time to expiration

5) Interest rates

These factors affect the premium/ price of options in several ways.

Q 88. In case of ordinary cash dividends, on the ex-dividend date, Put Option values will decrease - State True or False ?

- True
- False

✗ WRONG ANSWER

CORRECT ANSWER:

False

Explanation:

Cash dividends issued by stocks have big impact on their option prices. This is because the underlying stock price is expected to drop by the dividend amount on the ex-dividend date.

Put options gets more expensive due to the fact that stock price always drop by the dividend amount after ex-dividend date.

In case of call options, they can get discounted by as much as the dividend amount.

Q 89. A Writer of an option _________.

- has obligation in the contract
- receives the premium
- has choice in the contract
- Both 1 and 2

✓ CORRECT ANSWER

Explanation:

The writer of an option is one who receives the option premium and is thereby obliged to sell/buy the asset if the buyer of option exercises his right.

Q 90. The daily settlement prices of equity derivatives are decided by _________.

- Clearing Corporation
- SEBI
- Brokers Association
- RBI

✓ CORRECT ANSWER

Explanation:

One of the responsibilities of the Clearing Corporation is to decide the Daily Settlement Prices.

Q 91. The maximum possible loss for the option buyer is the premium paid , but the profits can be higher depending on the underlying price movement. This is true for which type of options

- true for all types of options
- true for American options only
- true for European options only
- false for all types options

✓ CORRECT ANSWER

Explanation:

The difference between American and European options is relating to the time of exercising the contract. Profit potential in both of them is same.

Q 92. If a Clearing members defaults, the margin paid on his own account only is allowed to be used by the clearing corporation for realizing its dues from the member. The clients margin remain unaffected - State True or False ?

- True
- False

✗ WRONG ANSWER

CORRECT ANSWER:

True

Explanation:

As per SEBI's Standard Operating Procedures and clearing corporation norms:

- If a Clearing Member (CM) defaults, the clearing corporation can only use the margin deposited by the CM on its own account to recover dues.

- The clients' margins and collateral are segregated and protected, and cannot be used to settle the CM's proprietary obligations.

This ensures that non-defaulting clients are safeguarded from the financial risks of their clearing member's failure.

Q 93. A future contract is a very standardized contract that leaves very little (except the price) open to negotiation - State True or False ?

- False
- True

✓ CORRECT ANSWER

Explanation:

Terms of the future contracts are standardized wrt. quantity, time period etc. Only price is decided by the demand supply and other market situations.

A forward contract on the other hand is not standardized.

Q 94.

Shorter the time to maturity of the call option, higher will be the time value - State whether True or False ?

- True
- False

✕ WRONG ANSWER

CORRECT ANSWER:

False

Explanation:

Other things being equal, options tend to lose time value each day throughout their life. This is due to the fact that the uncertainty element in the price decreases.

Thus shorter the time to maturity, lower will be the time value.

Q 95.

Mr. Anand asks his broker to buy certain number of contracts at the market price, this instruction is called____________

- arbitrage order
- limit order
- stop loss order
- market order

✓ CORRECT ANSWER

Explanation:

A market order is an order to buy or sell a contract at the best bid/offer price currently available in the market. Price is not specified at the time of placing this order.

Q 96.

A Client Registration form contains client's ____________

- investment objectives
- background
- beneficial identity
- all of the above

✓ CORRECT ANSWER

Explanation:

While opening a clients account, the broker should know some important details of his clients. Therefore the Client Registration form asks for deatils on the backgroung of the client (to know if there is a criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency worldwide).

The client should be identified by the intermediary by using reliable sources including documents/information. The intermediary should obtain adequate information to satisfactorily establish the identity of each new client and the purpose of the intended nature of the relationship.

Q 97.

Any person who wishes to open a Trading Account must be given the following documents by his trading member -

- Complete version of all the laws of SEBI
- Risk disclosure document
- All the rules & regulations of the exchange
- SEBI guidelines on the subject

✓ CORRECT ANSWER

Explanation:

The broker is required to get a Risk Disclosure Document signed by the client, at the time of client registration.

Q 98.

The 'ASK' price is always__________.

- greater than the bid price
- equal to bid price
- lower than the bid price
- none of the above

✕ WRONG ANSWER

CORRECT ANSWER:

greater than the bid price

Explanation:

Bid and Ask price means the Buyer and Seller price.

For eg price of a stock as quoted on a stock market is Rs. 100 - 101.

So 100 is the Bid price and 101 is the Ask price.

The Ask will always be higher than Bid price.

Q 99.

Mr. Mohan entered into a contract with Mr. Soham to buy 500 bags of Cotton at a price of Rs 800 per bag. Delivery of goods and payment of money will take place 4 months from now. Both Mr. Mohan and Mr. Soham have a right as well as an obligation under this contract. What type of contract is this?

- Options
- Forwards
- Futures
- Swaps

✓ CORRECT ANSWER

Explanation:

Forward contract is an agreement made directly between two parties to buy or sell an asset on a specific date in the future, at the terms decided today. There is no Stock Exchange, Commodity Exchange etc.involved.

Q 100. **The process by which a futures contract is terminated by a transaction that is equal and opposite to the original transaction is called __________ .**

- netting
- off setting
- hedgeing
- mark to market

✕ WRONG ANSWER

CORRECT ANSWER:

off setting

Explanation:

A closing transaction is one that reduces or eliminates an existing position by an appropriate offsetting purchase or sale.