Question #1 of 4

Question ID: 1463601

Which of the following statements regarding exchange-traded derivatives is *least* accurate? Exchange-traded derivatives:

A) often trade in a physical location.

B) are backed by a central clearinghouse.

C) are illiquid.

Explanation

Derivatives that trade on exchanges have good liquidity in most cases. They have the other characteristics listed.

(Module 48.1, LOS 48.b)

Question #2 of 4

Question ID: 1463603

In futures markets, the primary role of the clearinghouse is to:

A) reduce transaction costs by making contract prices public.

B) act as guarantor to both sides of a futures trade.

C) prevent arbitrage and enforce federal regulations.

Explanation

Acting as the counterparty for all buyers and sellers is the primary role of the clearinghouse. By providing liquidity, the clearinghouse may also help lower transaction costs indirectly.

(Module 48.1, LOS 48.b)

Question #3 of 4

Question ID: 1463602

A derivative is defined as a security that has a value:

A) established outside an organized exchange.

B) stated in a contract between two counterparties.

C) based on another security, commodity, or index.

Explanation

A derivative is a security the value of which is derived from the value of some other underlying asset. Some derivatives trade on organized exchanges. The *price* at which a transaction will (or may) take place in the future is stated in a derivatives contract.

(Module 48.1, LOS 48.b)

Question #4 of 4

Question ID: 1463600

For exchange-traded derivatives, the role of the central clearinghouse is to:

A) maintain private insurance that can be used to provide funds if a trader defaults.

B) stabilize the market price fluctuations of the underlying commodity.

C) guarantee that all obligations by traders will be honored.

Explanation

The central clearinghouse does not originate trades, it acts as the opposite party to all trades. In other words, it is the buyer to every seller and the seller to every buyer. This action guarantees that all obligations under the terms of the contract will be fulfilled.

(Module 48.1, LOS 48.b)