




### Question #1 of 6

Question ID: 1469224

Long futures contracts may be preferred to equivalent forward contracts without central clearing when interest rates are:

- A) positively correlated with the price of the underlying. 
- B) negatively correlated with the price of the underlying. 
- C) uncorrelated with the price of the underlying. 

#### Explanation

When interest rates are positively correlated with the price of the underlying, the mark-to-market feature of futures means that when additional margin deposits are required (lower price of the underlying), interest cost is lower. When margin can be withdrawn from the account (higher price of the underlying) the interest earned on the cash withdrawn will be higher. This makes futures more desirable than equivalent forward contracts.




(Module 53.1, LOS 53.b)

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### Question #2 of 6

Question ID: 1469223

Long forward contracts without central clearing may be preferred to equivalent futures contracts when interest rates are:

- A) negatively correlated with the price of the underlying. 
- B) uncorrelated with the price of the underlying. 
- C) positively correlated with the price of the underlying. 

#### Explanation

When interest rates are negatively correlated with the price of the underlying, the mark-to-market feature of futures means that when additional margin deposits are required (lower price of the underlying), interest cost is higher. When margin can be withdrawn from the account (higher price of the underlying), the interest earned on the cash withdrawn will be lower. This makes futures less desirable than equivalent forward contracts.




(Module 53.1, LOS 53.b)

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### Question #3 of 6

Question ID: 1469222

Compared to an interest rate futures contract, an otherwise equivalent forward rate agreement will:

- A) exhibit greater convexity. 
- B) have greater payments for a given decrease in interest rates. 
- C) have greater volatility. 

#### Explanation

Because payments on forward rate agreements are discounted to the beginning of the loan period at the realized rate, they exhibit convexity, whereas payments on interest rate futures are linear (no convexity).




(Module 53.1, LOS 53.b)

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#### Question #4 of 6

Question ID: 1463642

If the price of a forward contract is greater than the price of an identical futures contract, the most likely explanation is that:

- A) the futures contract requires daily settlement and the forward contract does not. 
- B) the futures contract is more difficult to exit than the forward contract. 
- C) the forward contract is more liquid than the futures contract. 

#### Explanation

The reason there may be a difference in price between a forward contract and an identical futures contract is that a futures position has daily settlement and so makes or requires cash flows during its life.



(Module 53.1, LOS 53.b)

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#### Question #5 of 6

Question ID: 1463643

Bea Moran wants to establish a long derivatives position in a commodity she will need to acquire in six months. Moran observes that the six-month forward price is 45.20 and the six-month futures price is 45.10. This difference *most likely* suggests that for this commodity:

- A) long investors should prefer futures contracts to forward contracts. 
- B) futures prices are negatively correlated with interest rates. 

**C)** there is an arbitrage opportunity among forward, futures, and spot prices.



### Explanation

Differences may exist between forward and futures prices for otherwise identical contracts if futures prices are correlated with interest rates. If futures prices are negatively correlated with interest rates, daily settlement of long futures contracts will require cash when interest rates are increasing and produce cash when interest rates are decreasing. As a result the futures price will be lower than the forward price. The difference in price does not provide an arbitrage opportunity or suggest that investors should prefer forward or futures contracts.

(Module 53.1, LOS 53.b)

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### Question #6 of 6

Question ID: 1469221

For a futures contract, the adjustment for the change in settlement price from one day to the next will result in:

**A)** no change in contract price but a change in contract value.



**B)** a change in contract price but no change in contract value.



**C)** changes in both the contract price and contract value.



### Explanation

The mark to market adjustment to futures contracts resets the price of the futures contract to the new settlement price, which returns the value of the contract to zero each day.

(Module 53.1, LOS 53.a)