1. An investor who requires no premium to compensate for the assumption of risk is said to be which of the following?

A. Risk seeking

B. Risk averse

C. Risk neutral

2. Pierre-Louis Robert just purchased a call option on shares of the Michelin Group. A few days ago he wrote a put option on Michelin shares. The call and put options have the same exercise price, expiration date, and number of shares underlying. Considering both positions, Robert's exposure to the risk of the stock of the Michelin Group is:

A. Long.

B. Short.

C. Neutral.

3. Which of the following statements about put and call options is least accurate?

A. The price of the option is less volatile than the price of the underlying stock.

B. Option prices are generally higher the longer the time until the option expires.

C. For put options, the higher the strike price relative to the stock's underlying price, the more the put is worth.

4. The most correct statement about the binomial option pricing formula is that:

A. The discount rate to calculate the option price is the risk-free rate

B. The discount rate to calculate the option price is the risk-free rate plus a risk premium

C. The spot price is compounded at the risk-free rate to get the expected payoff

5. To the holder of a long position, it is more desirable to own a forward contract than a futures contract when interest rates and futures prices are:

A. negatively correlated.

B. uncorrelated.

C. positively correlated.

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