1. An investor purchases 100 shares of common stock at €50 each and simultaneously sells call options on 100 shares of the stock with a strike price of €55 at a premium of €1 per option. At the expiration date of the options, the share price is €58. The investor's profit is closest to:

A. €400.

B. €900.

C. €600.

2. Which of the following derivatives is least likely to be classified as a contingent claim?

A. A call option contract

B. A credit default swap

C. A futures contract

3. Which of the following is least likely to be an example of a derivative?

A. An exchange-traded fund

B. A contract to sell Alphabet Inc.'s shares at a fixed price

C. A contract to buy Australian dollars at a predetermined exchange rate

4. An at-the-money American call option on a stock that pays no dividends has three months remaining until expiration. The market value of the option will most likely be:

A. less than its exercise value.

B. equal to its exercise value.

C. greater than its exercise value.

5. The usefulness of a forward contract is limited by some problems. Which of the following is most likely one of those problems?

A. Once you have entered into a forward contract, it is difficult to exit from the contract

B. Entering into a forward contract requires the long party to deposit an initial amount with the short party

C. If the price of the underlying asset moves adversely from the perspective of the long party, periodic payments must be made to the short party