1. Which of the following statements is true about contingent claims?

A. Either party can default to the other

B. The payoffs are linearly related to the performance of the underlying

C. The most the long can lose is the amount paid for the contingent claim

2. Which of the following is least likely one of the main benefits of derivative markets? Derivative markets

A. exhibit lower volatility compared with the spot market.

B. enable companies to more easily practice risk management.

C. reveal prices and volatility of the underlying assets.

3. Forward rate agreements are most likely used to hedge an exposure in the:

A. foreign exchange market.

B. money market.

C. equity market.

4. In futures markets, contract performance is most likely guaranteed by:

A. Clearing houses.

B. The futures exchanges.

C. Regulatory agencies

5. Which of the following is most similar to a short position in the underlying asset?

A. Buying a put

B. Writing a put

C. Buying a call