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标题: Derivatives【Reading 61】Sample

作者: clearlycanadian **时间:** 2012-3-31 16:32 **标题:** [2012 L1] Derivatives【Session 17 - Reading 61】Sample

Which of the following statements about forward contracts is *least* accurate?

A) A forward contract can be exercised at any time.

B) The *long* promises to purchase the asset.

C) Both parties to a forward contract have potential default risk.

Forward contracts typically require a purchase/sale of the asset on the expiration/delivery date specified in the contract. The other statements are true.

作者: clearlycanadian **时间:** 2012-3-31 16:33

The short in a forward contract:

A) is obligated to deliver the asset upon expiration of the contract.

B) has the right to deliver the asset upon expiration of the contract.

C) is obligated to deliver the asset anytime prior to expiration of the contract.

The short in a forward contract is obligated to deliver the asset (in a deliverable contract) on (or close to) the expiration date.

作者: clearlycanadian **时间:** 2012-3-31 16:34

Default risk in a forward contract:

A) is the risk to either party that the other party will not fulfill their contractual obligation.

B) only applies to the short, who must make the cash payment at settlement.

C) only applies to the long, and is the probability that the short can not acquire the asset for delivery.

Default risk in forward contracts is the risk to either party that the other party will not perform, whether that means pay cash or deliver the asset.

作者: clearlycanadian **时间:** 2012-3-31 16:35

Some forward contracts are termed *cash settlement* contracts. This means:

A) at contract expiration, the long can buy the asset from the short or pay the difference between the market price of the asset and the contract price.

B) at settlement, the long purchases the asset from the short for cash.

C) either the long or the short in the forward contract will make a cash payment at contract expiration and the asset is not delivered.

In a cash settlement forward contract there is a cash payment at settlement by either the long or the short depending on whether the market price of the asset is below or above the contract price at expiration. The underlying asset is not purchased or sold at settlement.

作者: clearlycanadian **时间:** 2012-3-31 16:35

A forward contract that must be settled by a sale of an asset by one party to the other party is termed a:

A) take-and-pay contract.

B) deliverable forward contract.

C) physicals-only contract.

A deliverable forward contract can be settled at expiration only by actual delivery of the asset in exchange for the contract value. The other terms are made up.

作者: clearlycanadian **时间:** 2012-3-31 16:35

When a party to a forward contract terminates the contract prior to the original expiration date by entering into a perfectly offsetting forward contract with a second counterparty:

A) there is no future liability, but default risk remains for all parties until the original contract settlement date.

B) the party terminating the contract is exposed to default risk, but has no further asset price risk.

C) the party terminating the forward contract has no default risk, but both counterparties face default risk.

When a forward contract is terminated by an offsetting contract with a second counterparty, there is no further asset price risk, but since there are two separate contracts with different counterparties, all parties are exposed to default risk until both contracts are settled. Since the two contracts may have different forward prices, the terminating party may have a future liability at settlement, but the amount is fixed at the time the offsetting contract is initiated. The terminating party may have 'locked in' a future gain or loss, depending on the difference between the forward prices of the two offsetting contracts.

作者: clearlycanadian **时间:** 2012-3-31 16:36

An investor can exit a forward position prior to contract expiration by all of the following methods EXCEPT:

A) exercising the early delivery option.

B) making a cash payment or accepting a cash payment by agreement with the original counterparty.

C) entering into an offsetting contract with the original counterparty.

There is typically no early delivery option in a forward contract. The other two methods are both usual ways of terminating a forward contract prior to the settlement date specified in the contract.

作者: clearlycanadian **时间:** 2012-3-31 16:36

Which of the following is NOT a method of terminating a forward contract prior to expiration?

A) Exercise a swaption.

B) Make an agreed upon payment to the counterparty.

C) Enter into an offsetting forward contract with the original counterparty.

A swaption can be used to terminate a *swap*. The others are both ways to terminate a forward contract prior to expiration.

作者: clearlycanadian **时间:** 2012-3-31 16:36

Which of the following statements regarding forward contracts is NOT correct?

A) Dealers make the majority of their profits by anticipating price moves in the underlying asset.

B) End users of forwards most often have a business exposure to price risk from the asset covered by the contract.

C) Dealers will enter into forward contracts with other dealers.

Dealers do not make most of their profits from speculating on price moves or interest rate moves. They profit from the bid-ask spread. They take offsetting positions with different end users to hedge their price risk.

作者: clearlycanadian **时间:** 2012-3-31 16:37

Which statement regarding forward contract dealers is *least* accurate?

A) Not all of them are banks.

B) They try to balance their long and short positions to limit risk.

C) They bear default risk but not asset-price risk.

Dealers bear both default risk as well as asset-price risk from unhedged positions. Nonbank financial institutions can deal in forward contracts. Ideally, dealers will balance their long contract positions with other parties who seek the opposite risk exposure.

作者: clearlycanadian **时间:** 2012-3-31 16:38

All of the following are typically end users of forward contracts EXCEPT:

A) non-profit institutions.

B) governmental units.

C) a forwards dealer.

A dealer is not an end user. Dealers typically take offsetting positions with different end users to limit their exposure to the asset price risk in individual forward contracts.

作者: clearlycanadian **时间:** 2012-3-31 16:38

Which of the following statements regarding forward contract dealers is NOT correct?

A) Forward contract dealers are often banks.

B) Dealers are compensated through up-front payments by the parties to forward contracts.

C) Dealers offer long and short forward contracts at different prices.

There is typically no payment from either the long or the short to enter into a forward contract. Dealers make money through the bid-ask spread, the difference between the forward prices they offer to buyers and sellers.

作者: optiix **时间:** 2012-3-31 16:40

An equity forward contract may be on all of the following assets EXCEPT a(n):

A) specific portfolio of five stocks.

B) index.

C) bond.

A forward contract on a bond is not an *equity forward contract*.

作者: optiix **时间:** 2012-3-31 16:40

The buyer (long) in a deliverable equity forward contract on a portfolio of stocks:

A) is obligated to buy the portfolio in the future at the forward price.

B) will profit on the contract if the price of the equity asset rises over the life of the contract.

C) will profit if the equity declines in price over the life of the contract.

In a deliverable contract, the long is obligated to buy the portfolio at the forward price. The forward contract price will generally (except for a very high dividend paying portfolio) be higher than the current market price; a rise in price from the current level is no guarantee of profits on the contract.

作者: optiix **时间:** 2012-3-31 16:40

The manager of a large equity portfolio is short a $10 million forward contract on the S&P 500 Index at 1000. The index is currently 940 and at contract expiration, the index is 950. At expiration the manager:

A) will make a payment of $105,263 since the index has increased 1.05263%.

B) receives a payment of 50 times the contract multiplier at expiration.

C) will receive a payment of $500,000.

The short position will receive $10 million times 5%, the amount by which the index is below the contract price at expiration (50 / 1,000).

作者: optiix **时间:** 2012-3-31 16:41

Which statement about equity forward contracts is *least* accurate?

A) Dividend payments are usually included in equity forward contracts.

B) Equity forward contracts may require asset delivery or cash settlement.

C) Investors can use equity forward contracts to speculate on stock-price increases.

Dividend payments are usually not included in equity forward contracts. Investors can use equity forwards to speculate on stock price movements. Most equity index forward contracts are settled in cash, but since they are custom instruments, forwards may specify either cash settlement or delivery of the equity shares specified in the contract.

作者: optiix **时间:** 2012-3-31 16:41

A portfolio manager is long an equity index contract at 995.6 with a notional value of $40 million. If the index is at 969.2 on the settlement date, the amount the manager must pay is *closest* to:

A) $1.09 million.

B) $41.06 million.

C) $1.06 million.

The actual index price is 2.6517% below the contract price (969.2 / 995.6 − 1 = -2.6517%). Since the long manager agreed to pay the higher price but could only sell at the lower price, she must settle in cash for 2.6517% of the $40 million notional amount, or about $1.06 million.

作者: optiix **时间:** 2012-3-31 16:41

Which of the following is *least likely* a characteristic of bond forward contracts?

A) Prices are stated as yield to maturity, including accrued interest.

B) Contracts can be written on bonds with embedded options.

C) Contracts must settle before the bond matures.

Bond forward contracts are typically stated as a yield to maturity exclusive of accrued interest. Both of the other statements are characteristics of bond forward contracts.

作者: optiix **时间:** 2012-3-31 16:42

The settlement price of a deliverable forward contract at 6% on a $1 million 90-day Treasury bill would be:

A) determined by the market rates at expiration.

B) $985,000.

C) $940,000.

Treasury bills are quoted as a discount from face value, which is annualized based on a 360 day year. (90/360) × 6% = 1.5%, so the contract price of the \$1 million bill is [1 − 0.015] × 1,000,000 = \$985,000.

作者: optiix **时间:** 2012-3-31 16:42

The price of a 90-day forward contract on a 90-day Treasury bill will be:

A) above the current price of a 90-day T-bill.

B) either above or below the current price of a 180-day T-bill.

C) above the current price of a 180-day T-bill.

Since purchasing a 180-day T-bill today will result in a 90-day T-bill 90 days from now, the forward price must be higher than the current price of a 180-day T-bill. As long as interest rates are positive, no one would agree to sell a 180-day bill at a lower price 90 days later.

作者: optiix **时间:** 2012-3-31 16:43

The forward contract price of a coupon-bearing bond is typically quoted as:

A) a discount to the face value.

B) a yield to maturity at the settlement date.

C) the bond dollar-price plus accrued interest as of the settlement date.

The contract price for a coupon-bearing bond is typically quoted as its yield to maturity. The accrued interest is (customarily) added to the price on a deliverable contract, but not included in the stated price quote.

作者: optiix **时间:** 2012-3-31 16:46

Which of the following is *least likely* a characteristic of London Interbank Offered Rate (LIBOR)?

A) Adjusted daily.

B) Paid on loans denominated in U.S. dollars.

C) Set by the European Central Bank.

LIBOR is published by the British Bankers Association based upon quotes from a number of large banks. The rate is determined on a daily basis. LIBOR can apply to loans in U.S. dollars, as well as a variety of other major currencies.

作者: optiix **时间:** 2012-3-31 16:46

If the U.S. discount rate is 2.5% and the London Interbank Offered Rate (LIBOR) is +7.5%, the add-on interest that must be paid on a 60-day, \$250 million loan is *closest* to:

A) \$3.13 million.

B) \$4.17 million.

C) \$3.08 million.

Add-on interest = LIBOR × (60/360) × \$250 million

Interest = 7.5% × (1/6) × $250 million = $3.125 million

作者: optiix **时间:** 2012-3-31 16:46

Euribor is:

A) the same as EuroLIBOR.

B) the rate on U.S. dollar deposits in continental Europe.

C) published by the European Central Bank.

Euribor is the interbank lending rate for Euro denominated loans, published by the European Central Bank, and compiled in Frankfurt.

作者: optiix **时间:** 2012-3-31 16:47

If 60-day London Interbank Offered Rate (LIBOR) is 6 percent, the interest on a 60-day LIBOR-based Eurodollar deposit of $990,000 is:

A) $10,000.

B) $9,900.

C) $59,400.

0.06 × (60/360) × 990,000 = $9,900.

作者: optiix **时间:** 2012-3-31 16:48

The offer rate on U.S. dollar (USD) denominated loans between large banks in London is called:

A) London Interbank Offered Rate (LIBOR).

B) Eurobor.

C) the Exchequer rate.

The rate on USD denominated loans between large banks in London is the LIBOR.

作者: optiix **时间:** 2012-3-31 16:48

Which of the following statements regarding Eurodollar time deposits is NOT correct?

A) USD denominated deposits in large banks in Tokyo are Eurodollar accounts.

B) Euro denominated deposits at large banks in the U.S. are Eurodollar accounts.

C) U.S. dollar (USD) denominated deposits at large banks in London are Eurodollar accounts.

Eurodollar deposits are USD denominated deposits in large banks held outside the United States. By convention, the rates are quoted as an add-on yield. Following this convention, euro-denominated deposits held outside of the euro-block countries would be “Euroeuro” deposits.

作者: optiix **时间:** 2012-3-31 16:49

Eurodollar time deposits are:

A) denominated in U.S. dollars (USD).

B) priced at a discount.

C) actively traded in the secondary market.

Eurodollar time deposits are USD denominated deposits with large banks outside the U.S. They are usually short term and not traded in a secondary market.

作者: optiix **时间:** 2012-3-31 16:49

Which of the following statements regarding Eurodollar time deposits is NOT correct?

A) Sometimes the best rates are available in New York City.

B) Rates are quoted as an add-on yield.

C) They are available in Switzerland.

Eurodollar time deposits are U.S. dollar denominated deposits *outside* the United States. Rates are quoted as an annualized add-on yield, based on a 360-day year.

作者: optiix **时间:** 2012-3-31 16:49

A forward rate agreement (FRA):

A) can sometimes be viewed as the right to borrow money at below-market rates.

B) requires the long to pay cash to the short if the rate specified in the contract at expiration is below the current floating rate.

C) generally uses a fixed reference interest rate.

If the floating rate is above the rate specified in the agreement, the long position can be viewed as the right to borrow at below-market rates. Floating rates like LIBOR are used in FRAs. The long must pay the short only if the contracted rate at the expiration date is above the floating rate.

作者: optiix **时间:** 2012-3-31 16:49

An FRA is:

A) a Forward Rate Agreement.

B) the Futures Regulatory Administration.

C) a Forward Riskfree Asset.

An FRA is a forward rate agreement.

作者: optiix **时间:** 2012-3-31 16:50

A forward rate agreement (FRA):

A) can be used to hedge the interest rate exposure of a floating-rate loan.

B) is settled by making a loan at the contract rate.

C) is risk-free when based on the Treasury bill rate.

An FRA settles in cash and carries both default risk and interest rate risk, even when based on an essentially risk-free rate. It can be used to hedge the risk/uncertainty about a future payment on a floating rate loan.

作者: optiix **时间:** 2012-3-31 16:50

The short in a forward rate agreement:

A) faces default risk.

B) profits if LIBOR decreases.

C) profits if London Interbank Offered Rate (LIBOR) increases.

Each party to a forward contract faces default risk to some extent. If the floating rate at contract expiration (LIBOR or Euribor) is above the rate specified in the forward rate agreement (FRA), the long position in the contract can be viewed as the right to borrow at below market rates and the long will receive a payment from the short. If floating rates (LIBOR or Euribor) at the expiration date are below the rate specified in the FRA the short will receive a cash payment from the long. However, "the short profits if LIBOR decreases" is not necessarily true because LIBOR can decrease but remain above the rate specified in the FRA.

作者: optiix **时间:** 2012-3-31 16:50

Which of the following statements regarding forward rate agreements (FRAs) is *least* accurate?

A) Because the cash payment will happen in the future, the forward interest rate reflects the creditworthiness of the party which is long the FRA.

B) If the floating rate at contract expiration is greater than the rate specified in the FRA, the long position will receive a payment.

C) If the floating rate at contract expiration is less than the rate specified in the FRA, the right to lend at rates higher than market rates has a positive value.

A forward rate agreement can be viewed as a forward contract to borrow or lend money at a certain rate at some future date. Because no actual loan is made at the settlement date, the forward interest rate does not need to reflect the creditworthiness of the parties to the contract (however, the parties may still face default risk).
If the floating rate at contract expiration is above the rate specified in the forward agreement, the long position in the contract can be viewed as the right to borrow at below market rates and the long will receive a payment. If the reference rate at the expiration date is below the contract rate, the short can be viewed as the right to lend at rates higher than market rates.

作者: optiix **时间:** 2012-3-31 16:51

The following data applies to a forward rate agreement that settles in 60 days:

- It is based on 180-day LIBOR
- The notional principal amount is $15 million
- It calls for a forward rate of 6.5%
- In 30 days, 180-day LIBOR will be 6.2%
- In 60 days, 180-day LIBOR will be 7.0%
- In 180 days, 180-day LIBOR will be 7.5%

The short's cash payment at settlement is *closest* to:

A) $37,500.

B) the short will not have to make a payment.

C) $36,232.

Settlement payment from short = notional principal × ((forward LIBOR at settlement − agreed forward rate) × (180/360)) / (1 + (floating × 180/360))
Payment = $15 million × ((7.0% − 6.5%) × (180/360)) / (1 + (0.07 × 180/360))
Payment = $36,231.88

作者: optiix **时间:** 2012-3-31 16:51

A 60-day $10 million forward rate agreement (FRA) on 90-day London Interbank Offered Rate (LIBOR) (a 2X5 FRA) is priced at 4%. If 90-day LIBOR at the expiration date is 4.1%, the long:

A) receives $2,474.63.

B) receives $2,500.00.

C) pays $2,474.63.

[(0.041 − 0.040)(90/360)(10,000,000)] / [1 + 0.041(90/360)] = $2,474.63.

作者: optiix **时间:** 2012-3-31 16:51

Consider a $1 million 90-day forward rate agreement based on 60-day London Interbank Offered Rate (LIBOR) with a contract rate of 5%. If, at contract expiration, 60-day LIBOR is 6%, the short must pay:

A) $1,652.89.

B) $1,650.17.

C) $1,666.67.

[(0.06 − 0.05)(60 / 360)(1,000,000)] / [1 + 0.06(60 / 360)] = 1,650.17.

作者: optiix **时间:** 2012-3-31 16:52

When calculating the settlement payment on a long position in a London Interbank Offered Rate (LIBOR)-based forward rate agreement, the denominator is best described as:

A) a discount factor based on the contract LIBOR rate.

B) the interest differential between a loan made at the contract rate and one made at the market rate at contract expiration.

C) a discount factor based on LIBOR at settlement.

Since the interest differential between a loan made at the contract rate and one made at the market rate would be realized at the end of a loan period beginning at the settlement date, it must be discounted to get the value at the settlement date. The correct rate for this discounting is the actual rate (market rate) at the settlement date. The interest differential is the numerator of the formula for calculating the settlement value.

作者: optiix **时间:** 2012-3-31 16:52

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作者: optiix **时间:** 2012-3-31 16:52

A currency forward contract:

A) requires a payment at settlement based on London Interbank Offered Rate.

B) can be a deliverable contract.

C) is priced using the future interest rate on a foreign currency.

A currency forward contract can be a deliverable or cash-settlement contract. It is a contract to exchange fixed amounts of two currencies at settlement and its value depends on market exchange rates at contract expiration.

作者: optiix **时间:** 2012-3-31 16:53

An agreement that requires the parties to exchange a certain amount of Yen for a certain amount of Euros on a specific date in the future is called a(n):

A) exchange rate agreement.

B) currency forward contract.

C) foreign exchange future.

Such an agreement is called a currency forward contract.

作者: optiix **时间:** 2012-3-31 16:53

Which of the following statements regarding currency forward contracts is *least* accurate?

A) A long position in a currency that appreciates more than expected over the term of the contract will have a positive value at contract expiration.

B) If the domestic currency appreciates over the term of the contract, the party that is long the foreign currency will have losses on the contract.

C) Currency forward contracts can be settled in cash or by delivery.

The forward exchange rate in the contract will reflect the expected appreciation or depreciation of the currency. If a currency appreciates by more than the *expected* appreciation implicit in the forward exchange rate, the party that is long that currency will have gains. An appreciation of one currency does not equate to gains to the party that is long that currency; if it appreciates by less than the appreciation reflected in the forward exchange rate, the long will have losses.

作者: optiix **时间:** 2012-3-31 16:54

Macklin Metals has received 80 million pounds sterling. The company plans to spend \$120 million on a project in the United States in 90 days. Macklin inters into a cash settlement currency forward to exchange the pounds for U.S. dollars at a rate of \$1.50 per pound in 90 days. If the exchange rate is \$1.61 per pound at the settlement date, the cash settlement Macklin will pay or receive is *closest* to:

A) \$8.8 million payment.

B) \$8.8 million receipt.

C) \$5.5 million payment.

Under the contract, Macklin receives:
80 million pounds × \$1.50 = \$120.0 million
At market rates, Macklin would receive:
80 million pounds × \$1.61 = \$128.8 million
Macklin must pay the difference, \$8.8 million (\$128.8 million − \$120 million), as the cash settlement to the counterparty.