Lecture 1

1. A one-year forward contract is an agreement where
   A. One side has the right to buy an asset for a certain price in one year's time.
   B. One side has the obligation to buy an asset for a certain price in one year's time.
   C. One side has the obligation to buy an asset for a certain price at some time during the next year.
   D. One side has the obligation to buy an asset for the market price in one year's time.

2. A one-year call option on a stock with a strike price of $30 costs $3; a one-year put option on the stock with a strike price of $30 costs $4. Suppose that a trader buys two call options and one put option. The breakeven stock price above which the trader makes a profit is
   A. $35
   B. $40
   C. $30
   D. $36

3. The price of a stock on February 1 is $124. A trader sells 200 put options on the stock with a strike price of $120 when the option price is $5. The options are exercised when the stock price is $110. The trader's net profit or loss is
   A. Gain of $1,000
   B. Loss of $2,000
   C. Loss of $2,800
   D. Loss of $1,000

4. The price of a stock on February 1 is $84. A trader buys 200 put options on the stock with a strike price of $90 when the option price is $10. The options are exercised when the stock price is $85. The trader's net profit or loss is
   A. Loss of $1,000
   B. Loss of $2,000
   C. Gain of $200
   D. Gain of $1000
   E.
5. A speculator can choose between buying 100 shares of a stock for $40 per share and buying 1000 European call options on the stock with a strike price of $45 for $4 per option. For second alternative to give a better outcome at the option maturity, the stock price must be above
   A. $45
   B. $46
   C. $55
   D. $50