FM Practice Quiz M4

Time left: 52:31

QUESTIONS

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20

Question 1

Which of the following best describes the primary purpose of hedging with options?

- (•) To minimize risk by reducing the uncertainty of outcomes
- ( ) To guarantee a specific return on investment
- ( ) To maximize profits through leverage
- ( ) To eliminate all potential losses

Question 2

What is the definition of leverage in the context of investments?

- ( ) Using complex financial instruments to reduce risk
- ( ) Borrowing money to pay for bond interest payment
- (•) Borrowing capital to invest more deeply than with cash on hand
- ( ) Diversifying investments across multiple asset classes

Question 3

Why is volatility considered the most important factor in option pricing?

- ( ) It determines the strike price of the option
- (•) It affects the probability of the option being in-the-money at expiration
- ( ) It directly determines the intrinsic value of the option
- ( ) It influences the expiration date of the option

Question 4

If a stock is currently trading at $75 and a put option with a strike price of $80 has a premium of $8, what is the maximum loss for the put buyer?

- (•) $8
- ( ) $80
- ( ) $0
- ( ) $75

Question 5

What is the main similarity between mortgages and options discussed in the lesson?

- ( ) They both involve exchange rates
- ( ) They both require regular payments
- ( ) They both have expiration dates
- (•) They both exhibit non-linearity

Question 6

If a house with a $200,000 mortgage increases in value by 10%, what is the percentage return on the homeowner's investment if they put 20% down?

- ( ) 40%
- ( ) 10%
- ( ) 20%
- (•) 50%

Question 7

A farmer buys a call option on seed at a strike price of $50 per bushel. If the market price of seed rises to $60 per bushel at expiration, what is the farmer's net gain per bushel if the option premium was $2?

- (selected) $8
- $12
- $10
- $6

Question 8

If you invest $10,000 in a stock using 2:1 leverage and the stock price increases by 15%, what is your leveraged return?

- 45%
- (selected) 30%
- 22.50%
- 15%

Question 9

How does the use of options for speculation differ from their use in hedging?

- Speculation always results in profits, while hedging always results in losses
- Speculation is only used by individual investors, while hedging is only used by institutions
- Speculation and hedging both aim to reduce risk
- (selected) Speculation aims to increase risk for potential higher returns, while hedging aims to reduce risk

Question 10

What is the primary risk associated with using high leverage in investments?

- Increased regulatory scrutiny
- Reduced liquidity
- (selected) Potential for catastrophic losses
- Higher transaction costs

Question 11

A US company expects to receive €5 million in 3 months and wants to hedge against currency risk. The current EUR/USD rate is 1.12. What type of derivative would be most appropriate for this situation?

- Sell a EUR/USD Call option with strike at 1.12
- (selected) Enter a 3-month Forward contract to sell EUR/USD at 1.12
- Enter a 3-month Futures contract to buy EUR/USD at 1.12
- Sell a EUR/USD Put option with strike at 1.12

Question 12

According to the Merton model, what does stock value represent?

- The market value of a company's outstanding shares
- (selected) A call option on the assets of the firm with a strike price at the debt of the firm
- The total value of a company's assets
- The difference between assets and cash

Question 13

In a bull spread strategy, how does selling a call at a higher strike price affect the overall strategy?

- (●) It limits the potential profit but reduces the cost of the strategy
- ( ) It has no effect on the potential profit or cost of the strategy
- ( ) It increases the potential loss but increases the cost of the strategy
- ( ) It increases the potential profit and reduces the cost of the strategy

Question 14

Which of the following is NOT a factor that options depend on?

- (●) Company's market capitalization
- ( ) Underlying stock price
- ( ) Time to expiration
- ( ) Stock's volatility

Question 15

How does a futures contract differ from a forward contract?

- ( ) Futures contracts have no standardized terms
- (●) Futures contracts are traded on exchanges
- ( ) Forward contracts are traded on exchanges
- ( ) Futures contracts have no expiration date

Question 16

How does the lender's position in a mortgage resemble an option?

- (●) The lender is short a put option on the house value
- ( ) The lender is long a call option on the house value
- ( ) The lender is short a call option on the house value
- ( ) The lender is long a put option on the house value

Question 17

If a call option has a strike price of $50 and the current stock price is $45, how would this option be categorized?

- (●) Out-of-the-money (OTM)
- ( ) Near-the-money (NTM)
- ( ) At-the-money (ATM)
- ( ) In-the-money (ITM)

Question 18

How does leverage affect investment returns?

- ( ) It reduces the potential for losses
- ( ) It always guarantees positive returns
- (●) It magnifies both gains and losses
- ( ) It only affects long-term investments

Question 19

What is the primary characteristic that distinguishes a derivative from a spot security?

- ( ) It always has a maturity date under 1 year

- (selected) Its value depends on the value of another security
- It can only be traded on regulated exchanges
- Its value is independent of its underlying securities

Question 20

How might offering non-recourse mortgages with no money down impact the housing market?

- It would reduce the number of homeowners
- It would result in more stable home values
- (selected) It could lead to increased speculation and potential asset bubbles
- It would lead to a decrease in home prices

SUBMIT