Chapter 9 MC Questions and Answers

Derivative Securities (Simon Fraser University)

Hull: Fundamentals of Futures and Options Markets, Ninth Edition
Chapter 9: Mechanics of Options Markets
Multiple Choice Test Bank

1. Which of the following describes a call option?
   A. The right to buy an asset for a certain price
   B. The obligation to buy an asset for a certain price
   C. The right to sell an asset for a certain price
   D. The obligation to sell an asset for a certain price

   Answer: A

2. Which of the following is true?
   A. A long call is the same as a short put
   B. A short call is the same as a long put
   C. A call on a stock plus a stock the same as a put
   D. None of the above

   Answer: D

3. An investor has exchange-traded put options to sell 100 shares for $20. There is a 2 for 1 stock split. Which of the following is the position of the investor after the stock split?
   A. Put options to sell 100 shares for $20
   B. Put options to sell 100 shares for $10
   C. Put options to sell 200 shares for $10
   D. Put options to sell 200 shares for $20

   Answer: C

4. An investor has exchange-traded put options to sell 100 shares for $20. There is 25% stock dividend. Which of the following is the position of the investor after the stock dividend?
   A. Put options to sell 100 shares for $20
   B. Put options to sell 75 shares for $25
   C. Put options to sell 125 shares for $15
   D. Put options to sell 125 shares for $16

   Answer: D

5. An investor has exchange-traded put options to sell 100 shares for $20. There is a $1 cash dividend. Which of the following is then the position of the investor?
    A. The investor has put options to sell 100 shares for $20
    B. The investor has put options to sell 100 shares for $19
    C. The investor has put options to sell 105 shares for $19
    D. The investor has put options to sell 105 shares for $19.05

    Answer: A

6. Which of the following describes a short position in an option?
    A. A position in an option lasting less than one month
    B. A position in an option lasting less than three months
    C. A position in an option lasting less than six months
    D. A position where an option has been sold

    Answer: D

7. Which of the following describes a difference between a warrant and an exchange-traded stock option?
    A. In a warrant issue, someone has guaranteed the performance of the option seller in the event that the option is exercised
    B. The number of warrants is fixed whereas the number of exchange-traded options in existence depends on trading
    C. Exchange-traded stock options have a strike price
    D. Warrants cannot be traded after they have been purchased

    Answer: B

8. Which of the following describes LEAPS?
    A. Options which are partly American and partly European
    B. Options where the strike price changes through time
    C. Exchange-traded stock options with longer lives than regular exchange-traded stock options
    D. Options on the average stock price during a period of time

    Answer: C

9. Which of the following is an example of an option class?
   A. All calls on a certain stock
   B. All calls with a particular strike price on a certain stock
   C. All calls with a particular time to maturity on a certain stock
   D. All calls with a particular time to maturity and strike price on a certain stock

   Answer: A

10. Which of the following is an example of an option series?
    A. All calls on a certain stock
    B. All calls with a particular strike price on a certain stock
    C. All calls with a particular time to maturity on a certain stock
    D. All calls with a particular time to maturity and strike price on a certain stock

    Answer: D

11. Which of the following must post margin?
    A. The seller of an option
    B. The buyer of an option
    C. The seller and the buyer of an option
    D. Neither the seller nor the buyer of an option

    Answer: A

12. Which of the following describes a long position in an option?
    A. A position where there is more than one year to maturity
    B. A position where there is more than five years to maturity
    C. A position where an option has been purchased
    D. A position that has been held for a long time

    Answer: C

13. Which of the following is NOT traded by the CBOE?
    A. Weeklys
    B. Monthlys
    C. Binary options
    D. DOOM options

    Answer: B

14. When a six-month option is purchased
    A. The price must be paid in full
    B. Up to 25% of the option price can be borrowed using a margin account
    C. Up to 50% of the option price can be borrowed using a margin account
    D. Up to 75% of the option price can be borrowed using a margin account

    Answer: A

15. Which of the following are true for CBOE stock options?
    A. There are no margin requirements
    B. The initial margin and maintenance margin are determined by formulas and are equal
    C. The initial margin and maintenance margin are determined by formulas and are different
    D. The maintenance margin is usually about 75% of the initial margin

    Answer: B

16. The price of a stock is $67. A trader sells 5 put option contracts on the stock with a strike price of $70 when the option price is $4. The options are exercised when the stock price is $69. What is the trader's net profit or loss?
    A. Loss of $1,500
    B. Loss of $500
    C. Gain of $1,500
    D. Loss of $1,000

    Answer: C

17. A trader buys a call and sells a put with the same strike price and maturity date. What is the position equivalent to?
    A. A long forward
    B. A short forward
    C. Buying the asset
    D. None of the above

    Answer: A

18. The price of a stock is \$64. A trader buys 1 put option contract on the stock with a strike price of \$60 when the option price is \$10. When does the trader make a profit?
    A. When the stock price is below \$60
    B. When the stock price is below \$64
    C. When the stock price is below \$54
    D. When the stock price is below \$50

    Answer: D

19. Consider a put option and a call option with the same strike price and time to maturity. Which of the following is true?
    A. It is possible for both options to be in the money
    B. It is possible for both options to be out of the money
    C. One of the options must be in the money
    D. One of the options must be either in the money or at the money

    Answer: D

20. In which of the following cases is an asset NOT considered constructively sold?
    A. The owner shorts the asset
    B. The owner buys an in-the-money put option on the asset
    C. The owner shorts a forward contract on the asset
    D. The owner shorts a futures contract on the stock

    Answer: B