Assignment - 1 [IDFM]

1.) Is there any difference between currency forwards and futures markets?

→ Yes, only a limited number of currencies are traded in the futures market and that also in standardized amounts.

2.) What is the difference between primary and secondary markets?

→

c.) 1 & 3 only.

[1. Primary markets help in capital formation, while secondary provides capital liquidity to the Investors.
3. Stock exchanges are an example of secondary markets.]

3.) A company can raise capital through the primary market in the form of.

→ (d.) All the above.

⇒ Equity shares, Preference Share, Debentures all help to raise the capital and since they are newly issues so they belong to primary Mrkt.

4) PK Enterprises Limited has sold an entire . . .
⇒ c) offer for sale.

5) The type of unit which guarantees that all the buying and selling will be made by traders of exchange is called.
⇒ c.) Clearing house.

6.) ___ is the minimum amount which must be remained in a margin account.
⇒ c.) Initial margin.

7.) The basic difference between speculators and hedgers in futures contracts is that speculators:
⇒ b.) Are not protecting their commodity holdings.

8.) Hershey's Chocolate must purchase coca to make its products ...

⇒ b.) Coca prices will decline below $1300 and Hershey will purchase its coca at a price of $1300.

9.) An investor sells a futures contract on an asset ...
⇒ b.) The investor has made a loss of $4000.

10.) A short forward contract on an asset plus ...
⇒ c.) A long position in a put.

11) A trader has a portfolio worth \$ 5 million ...
⇒ b) Sell 16 contracts.

12) A company enters into a short futures contract to sell 50000 units ...
⇒ d) 72 cents.

13) The standard deviation of monthly changes in the spot price ...

⇒ b) The beef producer should take a short position in 3 December contracts closing out the position on November 15.

14) On July 1, an investor holds 50,000 shares of a certain stock...
⇒ d) A short position in 26 contracts.

15) A trader owns 55,000 units of a particular ...

⇒ Given:- spot price (S) = \$28
Quantity Asset (Q_a) = 55,000
Quan. Futures (Q_F) = 5000
(σ_S) $S.D_S$ = \$0.43 (σ_F) $S.D_F$ = 0.4
Future price of related asset (F) = \$27 , ρ = 0.95

a) Hedge ratio $(h^*) = \rho \dfrac{\sigma_s}{\sigma_F} = 0.95 \times \dfrac{0.43}{0.4}$

$= \underline{\underline{1.02125}}$

b) Short futures position.

c) Number of futures $\Rightarrow N = h^* \dfrac{Q_A}{Q_F}$

$= 1.02125 \times \dfrac{55000}{5000}$

$= 11.23375 \approx \underline{\underline{11}}$

d) Daily settlements.

$$N = h^* \frac{V_A}{V_F} = \frac{h^* Q_A \times S}{Q_F \times F}$$

$$= 1.02125 \times \frac{55000 \times 28}{5000 \times 27}$$

$$= 11.649814 \approx 12$$