Introduction to Derivatives and Financial Markets

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Questions

1. c) Yes, only a limited number of currencies are traded in the futures market and that also in standardized amount.

2. c) 1 and 3 only

3. d) Debentures

4. b) Offer through prospectus

5. c) Clearing house

6. a) Maintenance margin

7. b) Are not protecting their commodity holdings

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

9. b) The investor has made a loss of $4000

10. c) A long position in a put

11. b) Sell 16 contracts

12. d) 72 cents

13. d) The beef producer should take a short position in 5 December contracts

14. d) A short position in 26 contracts

15.

a) Hedge ratio= 0.95*(0.43/0.40) = 1.02125

Future price mirrors spot price almost accurately.

b) Short position

c) N= h*55000/5000= 11.23375= 11 contracts

d) By maintaining margin accounts.