

Test Bank: Chapter 2
Mechanics of Futures and Forward Markets

1. Which of the following is true (circle one)
 - (a) Both forward and futures contracts are traded on exchanges.
 - (b) Forward contracts are traded on exchanges, but futures contracts are not.
 - (c) Futures contracts are traded on exchanges, but forward contracts are not.
 - (d) Neither futures contracts nor forward contracts are traded on exchanges.

2. Which of the following is **not** true (circle one)
 - (a) Futures contracts nearly always last longer than forward contracts
 - (b) Futures contracts are standardized; forward contracts are not.
 - (c) Delivery or final cash settlement usually takes place with forward contracts; the same is not true of futures contracts.
 - (d) Forward contract usually have one specified delivery date; futures contract often have a range of delivery dates.

3. In the corn futures contract a number of different types of corn can be delivered (with price adjustments specified by the exchange) and there are a number of different delivery locations. Which of the following is true (circle one)
 - (a) This flexibility tends increase the futures price.
 - (b) This flexibility tends decrease the futures price.
 - (c) This flexibility may increase and may decrease the futures price.
 - (d) This has no effect on the futures price

4. A company enters into a short futures contract to sell 50,000 units of a commodity for 70 cents per unit. The initial margin is \$4,000 and the maintenance margin is \$3,000. What is the futures price per unit above which there will be a margin call?

5. A company enters into a long futures contract to buy 1,000 barrels of oil for \$60 per barrel. The initial margin is \$6,000 and the maintenance margin is \$4,000. What oil futures price will allow \$2,000 to be withdrawn from the margin account? ...

6. On the floor of a futures exchange one futures contract is traded where both the long and short parties are closing out existing positions. What is the resultant change in the open interest? Circle one.
 - (a) No change
 - (b) Decrease by one
 - (c) Decrease by two
 - (d) Increase by one

7. Who initiates delivery in a corn futures contract (circle one)
 - (a) The party with the long position
 - (b) The party with the short position
 - (c) Either party
 - (d) The exchange

8. You sell one December gold futures contracts when the futures price is \$1,010 per ounce. Each contract is on 100 ounces of gold and the initial margin per contract that you provide is \$2,000. The maintenance margin per contract is \$1,500. During the next day the futures price rises to \$1,012 per ounce. What is the balance of your margin account at the end of the day? _ _ _ _ _
9. A hedger takes a long position in an oil futures contract on November 1, 2009 to hedge an exposure on March 1, 2010. The initial futures price is \$60. On December 31, 1999 the futures price is \$61. On March 1, 2010 it is \$64. The contract is closed out on March 1, 2010. What gain is recognized in the accounting year January 1 to December 31, 2010? Each contract is on 1000 barrels of oil. _ _ _ _ _
10. What is your answer to question 9 if the trader is a speculator rather than a hedger?
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