

Hull: Options, Futures, and Other Derivatives, Tenth Edition
Chapter 2: Futures Markets and Central Counterparties
Multiple Choice Test Bank

1. Which of the following is true
 - 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
 - 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 contracts 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
 - 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 flexibility 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?
 - A. 78 cents
 - B. 76 cents
 - C. 74 cents
 - D. 72 cents

5. A company enters into a long futures contract to buy 1,000 units of a commodity for \$60 per unit. The initial margin is \$6,000 and the maintenance margin is \$4,000. What futures price will allow \$2,000 to be withdrawn from the margin account?
 - A. \$58
 - B. \$62
 - C. \$64
 - D. \$66

6. 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?
 - A. No change
 - B. Decrease by one
 - C. Decrease by two
 - D. Increase by one

7. Who initiates delivery in a corn futures contract
 - 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 futures contracts when the futures price is \$1,010 per unit. Each contract is on 100 units 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 unit. What is the balance of your margin account at the end of the day?
 - A. \$1,800
 - B. \$3,300
 - C. \$2,200
 - D. \$3,700

9. A hedger takes a long position in a futures contract on a commodity on November 1, 2012 to hedge an exposure on March 1, 2013. The initial futures price is \$60. On December 31, 2012 the futures price is \$61. On March 1, 2013 it is \$64. The contract is closed out on March 1, 2013. What gain is recognized in the accounting year January 1 to December 31, 2013? Each contract is on 1000 units of the commodity.
 - A. \$0
 - B. \$1,000
 - C. \$3,000
 - D. \$4,000

10. A speculator takes a long position in a futures contract on a commodity on November 1, 2012 to hedge an exposure on March 1, 2013. The initial futures price is \$60. On December 31, 2012 the futures price is \$61. On March 1, 2013 it is \$64. The contract is closed out on March 1, 2013. What gain is recognized in the accounting year January 1 to December 31, 2013? Each contract is on 1000 units of the commodity.
 - A. \$0
 - B. \$1,000
 - C. \$3,000
 - D. \$4,000

11. The frequency with which futures margin accounts are adjusted for gains and losses is
 - A. Daily
 - B. Weekly
 - C. Monthly
 - D. Quarterly

12. Margin accounts have the effect of
- A. Reducing the risk of one party regretting the deal and backing out
 - B. Ensuring funds are available to pay traders when they make a profit
 - C. Reducing systemic risk due to collapse of futures markets
 - D. All of the above
13. Which entity in the United States takes primary responsibility for regulating futures market?
- A. Federal Reserve Board
 - B. Commodities Futures Trading Commission (CFTC)
 - C. Security and Exchange Commission (SEC)
 - D. US Treasury
14. For a futures contract trading in April, the open interest for a June contract, when compared to the open interest for Sept contract, is usually
- A. Higher
 - B. Lower
 - C. The same
 - D. Equally likely to be higher or lower
15. Clearing houses are
- A. Never used in futures markets and sometimes used in OTC markets
 - B. Used in OTC markets, but not in futures markets
 - C. Always used in futures markets and sometimes used in OTC markets
 - D. Always used in both futures markets and OTC markets
16. A haircut of 20% means that
- A. A bond with a market value of \$100 is considered to be worth \$80 when used to satisfy a collateral request
 - B. A bond with a face value of \$100 is considered to be worth \$80 when used to satisfy a collateral request
 - C. A bond with a market value of \$100 is considered to be worth \$83.3 when used to satisfy a collateral request
 - D. A bond with a face value of \$100 is considered to be worth \$83.3 when used to satisfy a collateral request
17. With bilateral clearing, the number of agreements between four dealers, who trade with each other, is
- A. 12
 - B. 1
 - C. 6
 - D. 2
18. Which of the following best describes central counterparties
- A. Help market participants to value derivative transactions
 - B. Must be used for all OTC derivative transactions
 - C. Are used for futures transactions
 - D. Perform a similar function to exchange clearing houses

19. Which of the following are cash settled

- A. All futures contracts
- B. All option contracts
- C. Futures on commodities
- D. Futures on stock indices

20. A limit order

- A. Is an order to trade up to a certain number of futures contracts at a certain price
- B. Is an order that can be executed at a specified price or one more favorable to the investor
- C. Is an order that must be executed within a specified period of time
- D. None of the above