PRACTICE QUESTIONS

Option Trading Strategies Module

1. Which of the following statement(s) is true? (2 Marks)
   a) Breakeven for a Call Option = Strike Price - Premium
   b) Breakeven for a Call Option = Strike Price multiplied by Premium
   c) Breakeven for a Call Option = Strike Price divided by Premium
   d) Breakeven for a Call Option = Strike Price + Premium

Correct Answer: Breakeven for a Call Option = Strike Price + Premium

2. The current stock price of XYZ Ltd. is Rs. 30. At an exercise price of Rs. 30, put option on XYZ is priced at Rs. 2.15 each and the call options are priced at Rs. 2.89 each. Each contract consists of 100 options. What is the breakeven stock price if you buy a call? (2 Marks)
   a) Rs. 32.89
   b) Rs. 30
   c) Rs. 32.15
   d) Rs. 27.11

Correct Answer: Rs. 32.89

3. Let's say, price of an underlying stock is Rs. 25 now and an investor buys a call with strike price of Rs. 24 for Rs. 4, then the investor will make a net profit if at expiry price of stock is ____. (1 Marks)
   a) greater than Rs. 28
   b) greater than Rs. 25
   c) equal to Rs. 28
   d) less than Rs. 28

Correct Answer: greater than Rs. 28

4. Going long on a stock and long on a put option on the stock results in the pay off profile of a ____. (1 Marks)
   a) Put option writer
   b) Call option buyer
   c) Call option writer
   d) Put option buyer

Correct Answer: Call option buyer

5. Selling a call is a good strategy for ____. (2 Marks)
   a) bearish investors
   b) volatile markets
   c) bull markets

d) bullish investors.

Correct Answer: bearish investors

6. What would be the effect of the increase in volatility for an investor who is short on a Call Option? (2 Marks)

a) No effect
b) Negative
c) Neutral
d) Positive

Correct Answer: Negative

7. A synthetic long call has _____ profit potential. (1 Marks)

a) unlimited
b) depends on the premium
c) depends on the strike price
d) limited

Correct Answer: unlimited

8. The intrinsic value of a put option is the maximum of _____. (2 Marks)

a) (Spot Price - Strike Price), and zero
b) (Spot Price - Strike Price - Premium), and zero
c) (Strike Price - Spot Price - Premium), and zero
d) (Strike Price - Spot Price), and zero

Correct Answer: (Strike Price - Spot Price), and zero

9. Consider two put options differing only by exercise price. The one with the higher exercise price has ______.(1 Marks)

a) the higher breakeven and greater profit potential
b) the lower breakeven and lower profit potential
c) the lower breakeven and greater profit potential
d) the higher breakeven and lower profit potential

Correct Answer: the higher breakeven and greater profit potential

10. Mr. X recieves a premium of Rs. 4 for selling a put option with strike price Rs. 50. If the stock price at expiration is Rs. 45. What is Mr. X's profit / loss? (2 Marks)

a) Loss of Re 1
b) Loss of Rs. 9
c) Gain of Rs. 4
d) Gain of Rs. 5

Correct Answer: Loss of Re 1

11. Mr. XYZ is bullish on Nifty when it is at 22191.10. He sells a Put option with a strike price Rs. 22100 at a premium of Rs. 170.50 expiring on 31st July. If Nifty closes at 21000 at expiry Mr. XYZ's profit / loss will be ___. (1 Marks)

a) gain of Rs. 170.50
b) gain of Rs. 929.50
c) loss of Rs. 929.50
d) loss of Rs. 170.50

Correct Answer: loss of Rs. 929.50

12. An investor bought a stock for Rs. 276. In order to hedge himself, he writes a call option of Rs. 302 at a premium of Rs. 45. If the markets fall to 250 the net profit to the investor will be: (2 Marks)

a) Rs. 19
b) Rs. 26
c) Rs. 45
d) Rs. -26

Correct Answer: Rs. 19

13. In a Covered Call strategy the upside is ____. (2 Marks)

a) unlimited
b) upside is unlimited if puts are sold
c) upside is unlimted if calls are sold
d) capped

Correct Answer :capped

14.A covered call is _______. (2 Marks)

a) Simultaneous buying a stock and writing a call option.
b) Simultaneous buying and writing call option at different strike price
c) Simultaneous buying a call and a put option at the same strike price
d) Buying a call option with a short position in underlying asset

Correct Answer: Simultaneous buying a stock and writing a call option.

15. A Protective Call strategy is also called as _____. (2 Marks)

a) Synthetic Short Futures
b) Synthetic Long Call
c) Synthetic Long Put
d) Synthetic Long Futures

Correct Answer: Synthetic Long Put

16. What is the risk involved in a covered Put strategy? (2 Marks)

a) limited to the premium paid

b) limited
c) unlimited
d) no risk

Correct Answer: unlimited

17. Which of the following explains a long straddle strategy? (2 Marks)

a) buying a call and put at the same exercise price
b) selling a call and buying a put at same exercise price
c) buying a call and selling a put at the same exercise price
d) selling a call and put at same exercise price

Correct Answer: buying a call and put at the same exercise price

18. In a long straddle strategy if spot price is equal to the exercise price then maximum profit or loss is ___. (2 Marks)

a) profit to an extent of premium received
b) profit to an extent of the strike price
c) loss to an extent of premium paid
d) loss to an extent of the strike price

Correct Answer :loss to an extent of premium paid

19. A ______________ is created by going short on both put and call options, and the strike price and time to expiration of both the options are same. (1 Marks)

a) Synthetic put
b) long Strangle
c) Short straddle
d) Long straddle

Correct Answer : Short straddle

20. What is the reason for investors to opt for a long strangle strategy instead of a long straddle strategy? (2 Marks)

a) the premium paid is lower
b) it gives a higher return
c) the premium received is higher
d) its safer

Correct Answer: the premium paid is lower

21. Suppose Nifty is at 22051 in May. An investor executes a long strangle by buying a June 22000 put for Rs. 123 and a June 22250 call for Rs. 85. The lower breakeven point of the trade is _____. (2 Marks)

a) 21792

b) 21892
c) 22000
d) 21500

Correct Answer: 21792

22. The profits from a short strangle is ______. (2 Marks)
a) unlimited
b) limited
c) limited to the strike price of the put option
d) limited to the strike price of the call option

Correct Answer: limited

23. The breakeven point in a collar is _____.(2 marks)
a) Purchase Price of Underlying - Call Premium + Put Premium
b) Purchase Price of Underlying - Net Premium received + Strike Price
c) Purchase Price of Underlying + Call Premium - Put Premium
d) Purchase Price of Underlying - Net Premium received - Strike Price

Correct Answer: Purchase Price of Underlying - Call Premium + Put Premium

24. Mr. D Buys a Stock, Buys a Put and Sells a Call on the stock. This strategy is _____. (2 Marks)
a) a long strangle
b) a long straddle
c) a collar
d) a long butterfly

Correct Answer: a collar

25. In case of Bull Call Spread Breakeven Point = ____________________ (2 marks)
a) Strike Price of Long Call + Net Premium Paid
b) Net Premium Paid + Commissions Paid
c) Strike Price of Long Put + Net Premium Paid
d) Strike Price of Short Call Put + Net Premium Paid

Correct Answer: Strike Price of Long Call + Net Premium Paid