PRACTICE QUESTIONS

ALGORITHMIC TRADING

1. For algorithmic trading, firms aiming for higher profits have invested a lot in having faster access to: **[1Mark]**

   a) Insider information
   b) Information
   c) Coolants
   d) None of the above

   Correct Answer: Information

2. The first trading destination that allowed electronic block trading is: **[1Mark]**

   a) NASDAQ
   b) NYSE
   c) Instinet
   d) LSE

   Correct Answer: Instinet

3. Which of the following is least likely to be an algorithmic trading order? **[1Mark]**

   a) VWAP order
   b) TWAP order
   c) Point and Click order
   d) All of the above

   Correct Answer: Point and Click order

4. On NSE, Algorithmic Trading is only allowed for Equity Futures and Options.

   [1Mark]

   a) True
   b) False

   Correct Answer: False

5. Dark pools for trading equities are available for Indian stocks **[1Mark]**

   a) True
   b) False

   Correct Answer: False

6. Technology failure is one of the serious probable threats of Algo trading **[1Mark]**

   a) True
   b) False

Correct Answer: True

7. A buy IOC order will not impact the order book if **[1Mark]**

   a) the order price is less than the best bid in the market
   b) the order price is less than the best asks in the market
   c) the order price is greater than the best asks in the market
   d) the order price is greater than the best bid in the market

Correct Answer: the order price is less than the best bid in the market

8. TWAP is preferred over VWAP when **[1Mark]**

   a) the instrument is illiquid
   b) the market hours opening hours are very short
   c) the order book is very condensed for that instrument
   d) trading derivatives instead of stocks

   Correct Answer: the instrument is illiquid

9. In VWAP strategy, the idea is to **[1Mark]**

   a) Trade an instrument in equal volumes throughout the day
   b) Trade different instruments in the ratio of their volumes traded in the market
   c) Trade an instrument in such a way so as to match the Volume Weighted price of that stock in the market for a given time period
   d) Trade an instrument every time a particular amount of volume (i.e. volume weight) gets traded in the exchange

   Correct Answer: Trade an instrument in such a way so as to match the Volume Weighted price of that stock in the market for a given time period

10. If you want to create a rupee neutral strategy where the 2 legs involved are USDINR currency future [lot size 1000] and NIFTY future [lot size =50] for the same month. If the trade level for Nifty is 6000 and for USDINR is 60. How many lots of USD INR would you trade against 1 lot of Nifty**.** **[2 Marks]**

   a) 10
   b) 3
   c) 0
   d) 5

Correct Answer: 5

11. Pair Trade can never be beta neutral **[1Mark]**

   a) True
   b) False

Correct Answer: False

12. A trader trades a calendar spread such that [s]he is long Nifty Future February [expiry 29/02/2024] and short March [expiry28/03/2024]. At 9.15 pm on 1st March 2024 **[2 Marks]**

   a) Trader has zero position.
   b) Trader long February and short March spread.
   c) Trader has a short March position.
   d) Trade has a long February Position.

Correct Answer: Trader has a short March position

13. Market data pattern detection and decision making happens in the **[1Mark]**

   a) CEP block
   b) OM block
   c) Application block
   d) Algorithmic trading platform

Correct Answer: CEP Block

14. Risk management is handled in the **[1Mark]**

   a) Order Manager and the application block both
   b) Order Manager
   c) Complex Event Processing block
   d) Complex Event Processing block and Order Manager

Correct Answer: Order Manager and the application block both

15. The function of a simulator is to **[1Mark]**

   a) Simulate the market data emanating from an exchange
   b) Simulate an exchange where orders could be sent (instead of sending to actual exchange)
   c) Simulate the performance of a strategy
   d) Simulate the computational complexity of the algorithm before actual execution in real markets

Correct Answer: Simulate an exchange where orders could be sent (instead of sending to actual exchange)

16. A trader with low latency algo has edge on the same strategy to make profit than the trader trading with high latency algo. **[1Mark]**

   a) True
   b) False
   c) Latency does not have impact on strategy
   d) None of the Above

Correct Answer: True

17. Who are the main users of TBT feed/data? **[1Mark]**

a) Retail Traders
b) Institutional Traders
c) High Frequency Traders
d) Cash Future Arbitragers

Correct Answer: High Frequency Traders

18. What kind of risk is to be managed for Portfolio Gamma exposure (i.e. Change in Delta)? **[1Mark]**

a) Credit Risk
b) Market Risk
c) Financing Risk
d) Regulatory Risk

Correct Answer: Market Risk

19. Which of the following is not a type of risk associated specifically with algorithmic trading? **[1Mark]**

a) Access
b) Consistency
c) Novelty
d) Quality

Correct Answer: Novelty

20. Which of these is not a mandatory check required by the exchange for running automated trading systems **[1Mark]**

a) Trade Price Protection Limit
b) Price Range Check
c) Market Wide Protection Limit
d) Value at Risk check

Correct Answer: Value at risk check

21. Loss of liquidity during periods of high volatility would be classified under which category of algorithmic trading specific risk? **[1Mark]**

a) Access
b) Quality
c) Consistency
d) Market

Correct Answer: Quality

22. MSD stands for **[1Mark]**

a) Members Security Display
b) Members Surveillance Display
c) Money Surveillance Display
d) None of the above

Correct Answer: Members surveillance display

23. Can orders be segregated as algo or non-algo at exchange level **[1Mark]**

a) Yes
b) No.

Correct Answer: Yes

24. Audit is compulsory for **[1Mark]**

a) Exchange members who are providing brokerage services
b) Institutional brokers
c) All members of the exchange
d) Only those exchange members who are trading using algorithms

Correct Answer: All members of the exchange

25. The full form of CTCL is**:** **[1Mark]**

a) Centralized Trading and Clearing Limited
b) Computer To Computer Link
c) Computerized Trading Corporation Limited
d) Centralized Time Correction Link

Correct Answer: Computer to computer Link