

## PRACTICE QUESTIONS

### EQUITY DERIVATIVES A BEGINNER'S MODULE

1. An investor is long 2 contracts of Nifty futures purchased at Rs. 5035 each. The next morning ascam is disclosed of a large company because of which markets sell off and Nifty futures goes down to Rs. 4855. What is the mark to market for the investor? (1 Nifty contract is 50 shares).

[ 3 Marks]

- a. Rs. -18000
- b. Rs. 18000
- c. Rs. -9000
- d. Rs. 9000

**Correct Answer:** Rs. -18000

2. If SBI is trading at Rs. Rs 2200 a share in the spot market and an investor wants to buy 200 SBI shares then he has to make a payment of

[2 Marks]

- a. Depends on the initial margin of SBI
- b. Rs. 2200
- c. Rs. 4400
- d. Rs. 440000

**Correct Answer:** Rs. 440000

3. An investor buys a 4 lots of TATASTEEL futures at Rs. 545 each and sells it at Rs. 447 each. If one contract is 764 shares what is the Profit/ Loss in the transaction?

[ 2 Marks]

- a. Profit Rs. 74872
- b. Loss 74872
- c. Loss Rs. 299488
- d. Profit Rs. 299488

**Correct Answer:** Loss Rs. 299488

4. What are the types of settlement (s) in forward contracts?

[ 1 Mark]

- a. Physical and Cash
- b. Cash
- c. Physical
- d. There are no settlements for forward contracts

**Correct Answer:** Physical and Cash

5. An investor sells 3 lots of Nifty futures at Rs. 5231 each. On that day Nifty closes at Rs. 5310 in the futures market. What is the mark to market for the investor if any? One lot of Nifty is 50 shares

[2 Mark]

- a. Profit of Rs. 11000
- b. Loss of Rs. 11850
- c. Loss of Rs. 10000

d. Profit of Rs. 13000

**Correct Answer:** Loss of Rs. 11850

6. In a business daily to get information about the top gainers in the futures market, one has to look in the heading: **[ 1 Mark]**

- a. Contract details
- b. Positive trend
- c. Open Interest
- d. Negative trend

**Correct Answer:** Positive trend

7. An investor bought a put option on a stock with a strike price Rs. 2000 for Rs. 200. The option will be in the money when **[ 2 Mark]**

- a. The stock price is less than Rs. 2000
- b. The stock price is greater than Rs. 2200
- c. The stock price is greater than Rs. 2000
- d. The stock price is less than Rs. 1800

**Correct Answer:** The stock price is less than Rs. 2000

8. All Stock Options are American in nature. **[ 1 Mark]**

- a. TRUE
- b. FALSE

**Correct Answer:** FALSE

9. On 3rd August, NTPC is trading at Rs. 200 and 200 strike call option for one month is trading at Rs. 7.50. An investor who is bearish on NTPC sells the call option. NTPC on that month's expiry closes at Rs. 207.5. What is the investor's Profit / Loss in the trade? 1 lot of NTPC is 1625 shares.

**[ 2 Marks]**

- a. Rs. -12187
- b. Rs. 10000
- c. Rs. 12187
- d. No Profit no Loss

**Correct Answer:** No Profit no Loss

10. In futures trading initial margin is paid by : **[1 Mark]**

- a. buyer only
- b. clearing member
- c. seller only
- d. buyer and seller

**Correct Answer:** buyer and seller

11. An investor has Unitech shares in her portfolio. RBI is increasing interest rates which is negative for the stock. She wants to protect the downside in the stock as she feels RBI will decide on increasing interest rates in the next 3 months. What should she do? **[ 1 Mark ]**

- a. Buy 3 month call option of Unitech
- b. Buy 2 month put option of Unitech
- c. Buy 1 month put option of Unitech
- d. Buy 3 month put option of Unitech

**Correct Answer:** Buy 3 month put option of Unitech

12. In India, all Options traded on a stock are: **[ 1 Mark ]**

- a. Continental Options
- b. Asian Options
- c. European options
- d. American options

**Correct Answer:** European options

13. SBI is trading at Rs. 1800 in the cash market. What would be the price of SBI futures expiring three months from today. Risk free rate = 8% p.a. **[1 Mark]**

- a. 1844
- b. 1895
- c. 1814
- d. 1836

**Correct Answer:** 1836

14. All December 2023 stock Futures contracts traded on NSE will expire on : **[2 Marks ]**

- a. Last Thursday of December 2023
- b. Exchanges decides on expiry day and will update the investors on 1st December 2023
- c. Last Friday of December 2023
- d. 3rd Thursday of December 2023

**Correct Answer:** Last Thursday of December 2023

15. In India, all Options traded on Nifty are : **[ 1 Mark ]**

- a. Asian Options
- b. American options
- c. Continental Options
- d. European options

**Correct Answer:** European options

16. Nifty futures is trading at Rs. 3325 and an investor buys a 3400 call for current month for Rs. 100. What should be the closing price of Nifty only above which the investor starts to make Profits if he holds his long option position? 1 lot of Nifty = 50 shares. **[ 2 Marks ]**

- a. 3425

- b. 3400
- c. 3325
- d. 3500

**Correct Answer:** 3500

17. Which of the following is an exchange traded contract? [ 1 Mark]

- a. Futures on Nifty
- b. Forward contract on oil
- c. An interest rate swap
- d. A 10 year loan

**Correct Answer:** Futures on Nifty

18. As more and more trades take place, the difference between spot and futures prices would narrow. [ 1 Mark]

- a. hedge
- b. delta
- c. arbitrage
- d. speculative

**Correct Answer:** arbitrage

19. Nifty is at 5200. A put option at 5000 strike price is trading at Rs. 150. What is the intrinsic value of the option? [ 1 Mark]

- a. 200
- b. 0
- c. 350
- d. 150

**Correct Answer:** 0

20. Nifty is currently at 5100. An investor feels Nifty will not go beyond 4500 in next three months. He sells two lots of 5100 strike call on Nifty for Rs. 200 a lot. Because of good industrial production data, Nifty rallies to 5200 on the option's expiry day. What is the Profit/ Loss to the investor? (1 lot = 50 shares) [ 3 Marks]

- a. Rs. 10000
- b. Rs. -10000
- c. Rs. 20000
- d. Rs. -20000

**Correct Answer:** Rs. 10000

21. On 1st November, SBI is trading at Rs. 2300. An investor is bearish on the company because of the earnings of last quarter and sells a SBI futures at Rs. 2325. He buys back SBI futures at Rs. 2300. What is the Profit / Loss for the investor if 1 lot of SBI is 250 shares? [ 3 Marks]

- a. Rs. 6250
- b. Rs. 0
- c. Rs. -6250
- d. Rs. -10000

**Correct Answer:** Rs. 6250

22. Which of the following is NOT a hedge for a long position in an underlying stock? [ 2 Marks]
- a. Sell call option
  - b. Sell futures
  - c. Sell put option
  - d. Buy Put option

**Correct Answer:** Sell put option

23. When the strike price is lower than the spot price of the underlying, a call option will be [ 1 Mark]
- a. At the money
  - b. In the money
  - c. Out of the money
  - d. American Type

**Correct Answer:** In the money

24. On 1st January, SBI is trading at Rs. 2310. An investor is bullish on the company because of the earnings of the last quarter and buys a SBI futures at Rs. 2310. He sells SBI futures at Rs. 2335. What is the Profit / Loss for the investor if 1 lot of SBI is 250 shares? [ 2 Marks]

- a. Rs. -10000
- b. Rs. -6250
- c. Rs. 6250
- d. Rs. 0

**Correct Answer:** Rs. 6250

25. An investor buys TCS for Rs. 575 in the futures market. At the end of the day TCS futures closes at Rs. 500 in the futures market. What is the mark to market the investor is making/ losing? (1 lot of TCS = 1000 shares) [ 2 Marks ]

- a. Rs. 500000
- b. Rs. 575000
- c. Rs. -75000
- d. Rs. 75000

**Correct Answer:** Rs. -75000