OPTIONS TRADING (ADVANCED) MODULE

PRACTICE QUESTIONS

1. Which of the following is a contract where both parties are committed?
- Forward
- Future
- **Both the above**
- Option

2. Swaps can be based on
- Interest
- Principal and Interest
- Equity
- **Any of the above**

3. An option to buy an underlying is called
- Forward
- **Call**
- Put
- None of the above

4. If the security is priced at Rs. 300, what will be the price in 1 month, taking continuous compounding rate of 7%?
- Rs. 321
- Rs. 301.75
- **Rs. 301.76**
- Rs. 301.74

5. Which of the following is exercisable before expiry?
- Forward
- Future
- **American call**
- European put

6. Normal distribution is denoted by the following symbol
- ND
- Δ
- **Φ**
- Π

7. Mean ± 2 Standard Deviation covers _____% of the area under the curve.
- **95.45**
- 68.27
- 99.73
- 62.50%

8. Normal distribution is a suitable assumption to capture the behaviour of stock prices.
- True
- **False**

9. The value of 'e' is
- 2.81728
- 2.71282
- **2.71828**
- 2.82718

10. Volatility is of little practical relevance in estimation the value of options.
- True
- **False**

11. Binomial model assumes that over a short period of time, a stock can take either of two prices, which may be higher or lower than the current price.
- True
- **False**

12. Which of the following is true?
- Delta of a call option is positive
- Delta of a put option is negative
- **Both the above**
- None of the above

13. Delta hedging can be costly because:
- Option premia are higher for delta hedges as compared to regular trading
- Exchange imposes additional margins for delta hedges
- Risk-free rate to be used is higher
- **Delta hedge entails buying shares in a rising market, and selling them in a falling market**

14. On maturity, there is no difference in valuation of European and American options.
- **True**
- False

15. Binomial model of option pricing can be used in which of the following cases
- European Call
- European Put
- American Call
- **All the above**

16. Suppose a stock, trading at Rs. 60, has volatility of 25% p.a. A 1-month option on that stock has exercise price of Rs. 58. Risk-free rate is 6% p.a. What would be its price if it is an European Call?
- **Rs. 3.08**
- Rs. 3.03
- Rs. 2.97
- Rs. 2.93

17. Suppose a stock, trading at Rs. 60, has volatility of 25% p.a. A 1-month option on that stock has exercise price of Rs. 58. Risk-free rate is 6% p.a. What would be its price if it is an European Put?
- **Rs. 0.79**
- Rs. 0.83
- Rs. 1.02
- Rs. 0.93

18. Suppose a stock, trading at Rs. 60, has volatility of 25% p.a. A 1-month option on that stock has exercise price of Rs. 58. Risk-free rate is 6% p.a. The continuous dividend yield on the stock is 3%. What would be its price if it is an European Call?
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19. Suppose a stock, trading at Rs. 60, has volatility of 25% p.a. A 1-month option on that stock has exercise price of Rs. 58. Risk-free rate is 6% p.a. The continuous dividend yield on the stock is 3%. What would be its price if it is an European Put?
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20.________ is a measure of sensitivity of the value of an option to its stock price.

- **Delta**
- Theta
- Gamma
- Rho

21.As the call option goes deeper in the money, its delta gets closer to ___

- 0
- -1
- **1**
- Infinity

22.Other things remaining the same, Gamma is the same for both call and put contracts

- **True**
- False

23.Call on a dividend paying stock can have a positive theta.

- **True**
- False

24.Other things remaining the same, Vega is the same for both call and put contracts

- **True**
- False

25.________ is a measure of sensitivity of the value of an option to risk-free rate.

- Delta
- Theta
- Gamma
- **Rho**

26.Annual volatility is calculated by multiplying the standard deviation by

- 252
- $\sqrt{252}$
- 252^2
- **Depends on frequency of data**

27.ARCH Models are characterised by
- Equal importance to all data
- **More importance to more recent data**
- More importance to data relating to stable market conditions
- None of the above

28.In a GARCH (p,q), p refers to
- σ
- μ
- **Number of observations of μ**
- Number of observations of σ

29.EWMA stands for
- Excess Weighted Moving Average
- **Exponentially Weighted Moving Average**
- Exponentially Weighted Market Average
- Excess Weighted Markovitz Average

30.Historic volatility depends on
- Periodicity of data
- Period covered by the data
- Model used
- **All the above**

31.Which of the following is true?
- **Option premia in market depend on historical volatility**
- Theoretic valuation of option depends on implied volatility
- Both the above
- None of the above

32.In which of the following is the loss unlimited?
- Long call
- Long put
- **Short call**
- Short put and Short call

33.In a long call, maximum loss is
- **Premium paid**
- Exercise price plus premium
- Exercise price minus premium
- Market price minus exercise price

34. In a short call, profit is
- Unlimited
- **Limited to premium**
- Premium plus Market price minus exercise price
- Premium minus exercise price

35. The pay-off in which of the following is asymmetric?
- Stock
- **Options**
- Both the above
- None of the above

36. A long put position breaks even at
- The premium
- The exercise price
- **Exercise price minus premium**
- Exercise price plus premium

37. All options on the same underlying
- Are traded in the same exchange
- **Belong to the same class**
- Belong to the same series
- Are settled by the same settlement house.

38. Protective put is same as
- Synthetic long put
- **Synthetic long call**
- Covered put
- Covered call

39. Pay-off in a covered call is similar to
- Long call
- Long stock
- **Short put**
- Short call

40. In a bull spread, the investor makes profits if market goes
- **Up**
- Down
- Sideways
- None of the above

41. Butter fly entails ___ strikes

- 1
- 2
- **3**
- 4

42. In a reverse calendar spread, the option bought is of a shorter maturity than the option sold.

- **True**
- False

43. In a diagonal spread, which of the following remains constant?

- **Underlying**
- Underlying & Strike
- Underlying & Maturity
- Underlying, Strike & Maturity

44. In ______ option, the pay-off depends on the average price of the underlying during the tenor of the contract.

- American
- European
- **Asian**
- Dutch

45. Which of the following is true of compound options?

- Based on calls or puts
- Two strike prices
- Two strike dates
- **All the above**

46. Which of the following is a binary option?

- Cash or nothing
- Stock or nothing
- **Both the above**
- None of the above

47. Asset or nothing Put options are valued at

- **$S_0e^{-qT}N(-d1)$**
- $S_0e^{-qT}N(d1)$
- $S_0e^{-qT}N(-d2)$
- $S_0e^{-qT}N(d2)$

48. Knock in option is a type of barrier option
- **True**
- False

49. A shout option is one which is traded through open cry system in the trading floor.
- True
- **False**

50. Put-Call ratio is used as a lead indicater of market swings.
- **True**
- False

51. Higher put-call ratio is indicative that the market expects ______ in the market / stock.
- Increase
- **Decrease**
- Sideways movement
- None of the above

52. Increase in put-call ratio in a bullish market is an indication of trend reversal.
- **True**
- False

53. In general, an uptrend in prices, together with rise in trading volumes and open interest is a ________signal.
- Bearish
- **Bullish**
- Mixed
- Weak

54. A large percentage of roll overs indicates that the market participants expect the trend to continue.
- **True**
- False

55. The near month, middle month and far month open positions are 100, 200 and 300. What is the roll-over?
- **One-third**
- One-half
- One-fourth
- Two-third

NOTE: THIS IS A SAMPLE TEST. THE ACTUAL TEST WILL CONTAIN 35 QUESTIONS