

ANSWER KEY

1. Generally speaking, forward contracts are more liquid than futures contracts:

- true
- false
- it depends

2. A cocoa futures contracts which calls for delivery of 10 tons of cocoa on December 1st, is trading today at a forward price of 1,700 GBP/ton. Suppose you take a short position in one of these contracts today. What will be your gain/loss on this futures position at maturity if the spot price of cocoa is 1,750 GBP/ton on December 1st?

- Loss of 1,000 GBP
- Loss of 500 GBP
- Loss of 100 GBP
- Gain of 100 GBP
- Gain of 500 GBP
- Gain of 1,000 GBP

3. The risk-free yield curve is flat at 4% per year. The spot price of stock ABC is €50 today. What is the forward price for a contract on stock ABC that will mature in three months?

- | | |
|---------------------------------|--|
| <input type="checkbox"/> €49.00 | <input checked="" type="checkbox"/> €50.49 |
| <input type="checkbox"/> €49.51 | <input type="checkbox"/> €51.00 |
| <input type="checkbox"/> €50.00 | <input type="checkbox"/> €51.51 |

4. To take positions in futures contracts on the CAC40 (the French stock market index) you need to put up an initial margin of 5%. If you believe that the French stock market will collapse soon and the market does not anticipate this imminent collapse, how would you speculate to maximize your return?

- Buy CAC40 stocks spot
- Short-sell CAC40 stocks spot
- Buy futures on CAC40
- Sell futures on CAC40

5. Today, the spot price for a 10-year zero-coupon bond (Z) is €800. The one-year risk-free rate is 1% per year. A forward contract on one share of Z with delivery in one year is trading today at €810. What is a proper arbitrage strategy?

- Buy Z spot, buy Z forward, borrow €800 for one year
- Buy Z spot, sell Z forward, borrow €800 for one year
- Short-sell Z spot, buy Z forward, lend €800 for one year
- Short-sell Z spot, sell Z forward, lend €800 for one year