Finance 745 – Quiz 10 Name:___________________________________

_____1. Unlike forward contracts, the maturity dates in the futures market are ________.

a. ***limited to four dates during the year***
b. based on the first business day of each month
c. unlimited since futures contracts may be terminated anytime
d. limited to only regular business days rather than calendar days

_____2. When a futures contract is purchased, ________.

a. no money changes hands
b. the only cash flow is at the maturity of the contract
c. ***the buyer must deposit a certain amount of cash into a margin account***
d. the futures commission merchant marks up the price to cover his commission

_____3. The hedging contract that gives the buyer the right, but not the obligation, to buy a specific amount of foreign currency with domestic currency is known as the ________.

a. ***call option***
b. put option
c. American option
d. European option

_____4. An option that can be exercised only at maturity is known as a(n) ________.

a. American option
b. ***European option***
c. Currency warrant
d. Call option

_____5. The exchange rate in an option contract is called the option's ________.

a. premium
b. discount
c. ***strike price***
d. delivery price

_____6. Which of the following conditions would be "in the money" for an American call option for foreign currency?

a. when the market price limits are reached and trading is halted
b. when the strike price is greater than the spot price
c. when the strike price is equal to the spot price
d. ***when the strike price is lower than the spot price***

______7. A firm that is expecting revenue in foreign currency can put a floor on its earnings in domestic currency terms by:

a. buying a call option that allows it to buy foreign currency at the strike price.
b. selling a call option that obligates it to sell foreign currency at the strike price.
c. buying a put option that allows it to sell foreign currency at the strike price.
d. selling a put option that obligates it to buy foreign currency at the strike price.

______8. A firm that expects to incur costs in the foreign currency can put a ceiling on its costs in domestic currency terms by:

a. buying a call option that allows it to buy foreign currency at the strike price.
b. selling a call option that obligates it to sell foreign currency at the strike price.
c. buying a put option that allows it to sell foreign currency at the strike price.
d. selling a put option that obligates it to buy foreign currency at the strike price.

______9. Which of these does NOT increase the price of an American call option, holding all else constant?

a. An increase in the volatility of the spot exchange rate.
b. An increase in the time to maturity of the options contract.
c. A decrease in the strike price.
d. all of the above increase the price of an American call option.