

PRACTICE QUESTIONS

DERIVATIVES MARKET (DEALERS) MODULE

1. Swaps can be regarded as portfolios of _____. [1 Mark]
- (a) Future Contracts
 - (b) Option Contracts
 - (c) Call Options
 - (d) Forward Contracts
 - (e) I am not attempting the question
2. A stock is currently selling at Rs. 165. The put option at Rs. 163 strike price costs Rs. 3. What is the time value of the option? [1 Mark]
- (a) Rs. 3
 - (b) Rs. 2
 - (c) Rs. 1
 - (d) Rs. 1.50
 - (e) I am not attempting the question
3. LEAPS have a maturity of upto _____. [1 Mark]
- (a) one year
 - (b) three years
 - (c) ten years
 - (d) three months
 - (e) I am not attempting the question
4. What is the outstanding position on which initial margin will be levied if no proprietary trading is done and the details of client trading are: one client buys 500 units @ 1260. The second client buys 900 units @Rs.1255 and sells 1000 units @Rs.1260?[2 Marks]
- (a) 1900 units
 - (b) 2400 units
 - (c) 500 units
 - (d) 600 units
 - (e) I am not attempting the question
5. A payer swaption is an option to pay _____ and receive _____. [1 Mark]
- (a) floating, fixed
 - (b) interest, interest
 - (c) fixed, floating
 - (d) options, futures
 - (e) I am not attempting the question
6. Forward contracts are _____ contracts. [3 Marks]
- (a) Multilateral
 - (b) Tri-lateral
 - (c) Future
 - (d) Bilateral
 - (e) I am not attempting the question

7. You are the owner of a 5 million portfolio with a beta 1.0. You would like to insure your portfolio against a fall in the index of magnitude higher than 10%. Spot Nifty stands at 4000. Put options on the Nifty are available at three strike prices. Which strike will give you the insurance you want? [2 Marks]
- (a) 3,870
 - (b) 3,840
 - (c) 3,600
 - (d) None of the above
 - (e) I am not attempting the question
8. A receiver swaption is an option to receive _____ and pay _____. [1 Mark]
- (a) fixed, floating
 - (b) floating, fixed
 - (c) interest, interest
 - (d) options, futures
 - (e) I am not attempting the question
9. The market impact cost on a trade of Rs. 4 million of the S&P CNX Nifty works out to be about 0.06%. This means that if S&P CNX Nifty is at 4000, a sell order of that value will go through at a price of Rs. _____. [1 Mark]
- (a) 3997.60
 - (b) 3996
 - (c) 3,999.50
 - (d) 3,995.50
 - (e) I am not attempting the question
10. Ms. Shetty has sold 1000 calls on ABC Ltd. at a strike price of Rs. 885 for a premium of Rs.27 per call on April 1. The closing price of equity shares of ABC Ltd. is Rs. 890 on that day. If the call option is assigned against her on that day, what is her net obligation on April 01? [2 Marks]
- (a) Pay-out of Rs.22,300
 - (b) Pay-in of Rs.22,000
 - (c) Pay-in of Rs.25,000
 - (d) Pay-out of Rs.22,000
 - (e) I am not attempting the question
11. BANK Nifty is a derivative contract on NSE _____. True or False? [3 Marks]
- (a) True
 - (b) False
 - (c) I am not attempting the question
12. CNX IT is a derivatives contract on NSE. True or False? [3 Marks]
- (a) True
 - (b) False
 - (c) I am not attempting the question

13. Forward contracts on expiration have to be settled by _____. [3 Marks]

- (a) cash
- (b) difference in price
- (c) payment of margin
- (d) delivery of the asset
- (e) I am not attempting the question

14. On expiry the settlement price of a stock option contract is the _____. [2 Marks]

- (a) Closing futures price
- (b) Closing stock price
- (c) Closing options price
- (d) None of the above
- (e) I am not attempting the question

15. In an index fund, trading in the stocks comprising the fund, is required in response to _____. [1 Mark]

- (a) Favourable company specific news
- (b) Poor company specific news
- (c) Mergers
- (d) Government policies
- (e) I am not attempting the question

16. The market impact cost on a trade of Rs. 3 million of the S&P CNX Nifty works out to be about 0.04%. This means that if S&P CNX Nifty is at 4100, a sell order of that value will go through at a price of Rs. _____. [1 Mark]

- (a) 4098.35
- (b) 4096
- (c) 4093
- (d) 4099.50
- (e) I am not attempting the question

17. The following is an example of an order with time condition. [3 Marks]

- (a) Day order
- (b) Stop Loss
- (c) Limit
- (d) All of the above
- (e) I am not attempting the question

18. What is the outstanding position on which initial margin will be levied if no proprietary trading is done and the details of client trading are: one client buys 1000 units @ 1260. The second client buys 1000 units @Rs.1255 and sells 1000 units @Rs.1260.? [2 Marks]

- (a) 2000 units
- (b) 3000 units
- (c) 1000 units
- (d) 4000 units
- (e) I am not attempting the question

19. The beta of TELCO is 0.8. A person has a long TELCO position of Rs. 800,000 coupled with a short Nifty position of Rs. 600,000. Which of the following is TRUE? [1 Mark]

- (a) He is bearish on Nifty as well as on TELCO
- (b) He has a complete hedge against fluctuations of Nifty
- (c) He has a partial hedge against fluctuations of Nifty
- (d) He is bullish on Nifty as well as on TELCO
- (e) I am not attempting the question

20. Reliance Industries Ltd. does not have a Beta value. True or False? [2 Marks]

- (a) True
- (b) False
- (c) I am not attempting the question

21. Nifty consists of securities having _____ market capitalization stocks. [1 Mark]

- (a) large
- (b) small
- (c) medium
- (d) large and small
- (e) I am not attempting the question

22. The beta of ICICI Bank is 1.5. A person has a long position of Rs. 400,000 of ICICI Bank. Which of the following gives a complete hedge?. [1 Mark]

- (a) SELL Rs. 600,000 of Nifty futures
- (b) SELL Rs. 650,000 of Nifty futures
- (c) SELL Rs. 700,000 of Nifty futures
- (d) None of the above
- (e) I am not attempting the question

23. On 15th January, Raju bought a January Nifty futures contract which cost him Rs.334,500. For this he had to pay an initial margin of Rs.31,520 to his broker. Each Nifty futures contract is for delivery of 100 Nifties. On 25th January, the index closed at 3360. How much profit/loss did he make? [2 Marks]

- (a) (-) 1,200
- (b) (-) 1,500
- (c) (+) 1,200
- (d) (+) 1,500
- (e) I am not attempting the question

24. Futures have a _____ payo ff. [2 Marks]

- (a) Non-linear
- (b) Linear
- (c) Vertical
- (d) Horizontal
- (e) I am not attempting the question

25. Mr. A buys a futures contract of M/s. XYZ Ltd. (Lot Size: 1000) expiring on 29th Sep for Rs. 300. The spot price of the share is Rs. 290. Does he have to pay securities transaction tax? [1 Mark]
- (a) Yes, only if he buys more than 1 contract
 - (b) Yes
 - (c) No, only if he sells of the contract immediately
 - (d) No
 - (e) I am not attempting the question
26. Ms. Shetty has sold 5000 calls on ABC Ltd. at a strike price of Rs. 500 for a premium of Rs.25 per call on April 1. The closing price of equity shares of ABC Ltd. is Rs. 505 on that day. If the call option is assigned against her on that day, what is her net obligation on April 01? [2 Marks]
- (a) Pay-out of Rs.1,22,300
 - (b) Pay-in of Rs.1,22,000
 - (c) Pay-in of Rs.1,25,000
 - (d) Pay-out of Rs.1,00,000
 - (e) I am not attempting the question
27. An index put option at a strike of Rs. 4200 is selling at a premium of Rs. 30. At what index level will it break even for the buyer of the option? [1 Mark]
- (a) Rs. 4175
 - (b) Rs. 4176
 - (c) Rs. 4170
 - (d) Rs. 4162
 - (e) I am not attempting the question
28. Which of the following is the duty of the trading member? [3 Marks]
- (a) Giving tips to clients to buy and sell
 - (b) Funding losses of the clients
 - (c) Collection of adequate margins from the client
 - (d) All of the above
 - (e) I am not attempting the question
29. The only way an investor can manage risks in the underlying cash market is by? [1 Mark]
- (a) Hedging in the futures market
 - (b) Speculating in the futures market
 - (c) Speculating in the options market
 - (d) All of the above
 - (e) I am not attempting the question
30. Nifty is a _____ index [2 Marks]
- (a) well diversified
 - (b) poorly diversified
 - (c) balanced
 - (d) volatile
 - (e) I am not attempting the question

31. You have bought a stock on the exchange. To eliminate the risk arising out of the stock price, you should _____. [3 Marks]
- (a) buy index futures
 - (b) buy stock futures
 - (c) sell the stock futures
 - (d) none of the above
 - (e) I am not attempting the question
32. On 1st January, a three month call option on the Nifty with a strike of 4280 is available for trading. The 'T' that is used in the Black Scholes formula should be _____. [1 Mark]
- (a) 3
 - (b) 0.25
 - (c) 90
 - (d) None of the above
 - (e) I am not attempting the question
33. The spot price of ABC Ltd. is Rs. 2000 and the cost of financing is 10%. What is the fair price of a one month futures contract on ABC Ltd.? [2 Marks]
- (a) 2015
 - (b) 2016.75
 - (c) 2018.75
 - (d) 2019
 - (e) I am not attempting the question
34. Cyrus is short 800 WIPRO July Puts at strike Rs. 1520 for a premium of Rs. 43 each on July 22. On July 25, (the expiration day of the contract), the spot price of WIPRO closes at Rs.1553, while the July futures on WIPRO close at 1655. Does Cyrus have an obligation to the Clearing Corporation on his positions, and how much, if any? [2 Marks]
- (a) Yes. Rs.19,800 pay-out
 - (b) No pay in or pay-out on expiration of contract
 - (c) Yes. Rs.18,900 pay-out
 - (d) Yes. Rs.19,800 pay-in
 - (e) I am not attempting the question
35. On 15th October, Arvind bought a December Nifty futures contract which cost him Rs. 325,600. For this he had to pay an initial margin of Rs. 30,100 to his broker. Each Nifty futures contract is for delivery of 100 Nifties. On 27th December, the index closed at 3280. How much profit/loss did he make? [2 Marks]
- (a) (+) 1400
 - (b) (-) 2400
 - (c) (+) 2400
 - (d) (-) 1400
 - (e) I am not attempting the question

36. Assume that the base value of a market capitalization weighted index were 1000 and the base market capitalisation were Rs.70,000 crore. If the current market capitalisation is Rs.140,000 crore, the index is at Rs. _____. [1 Mark]
- (a) 2,110
 - (b) 2,350
 - (c) 2,250
 - (d) 2,000
 - (e) I am not attempting the question
37. On 1st January, a one month call option on the Nifty with a strike of 4250 is available for trading. The 'T' that is used in the Black Scholes formula should be _____. [1 Mark]
- (a) 2
 - (b) 0.08
 - (c) 20
 - (d) None of the above
 - (e) I am not attempting the question
38. If the annual risk free rate is 9%, then the 'r' used in the Black Scholes formula should be _____. [1 Mark]
- (a) 0.086
 - (b) 0.099
 - (c) 1.1
 - (d) None of the above
 - (e) I am not attempting the question
39. The beta of ACC is 1.5. A person has a long TELCO position of Rs. 900,000 coupled with a short nifty position of Rs. 800,000. Which of the following is TRUE? [1 Mark]
- (a) He is bearish on Nifty as well as on ACC
 - (b) He has a complete hedge against fluctuations of Nifty
 - (c) He has a partial hedge against fluctuations of Nifty
 - (d) He is bullish on Nifty as well as on ACC
 - (e) I am not attempting the question
40. If the annual risk free rate is 8%, then the 'r' used in the Black Scholes formula should be _____. [1 Mark]
- (a) 0.076
 - (b) 0.096
 - (c) 1.1
 - (d) None of the above
 - (e) I am not attempting the question
41. Hedging with stock futures means _____. [1 Mark]
- (a) shorting stocks
 - (b) shorting index futures
 - (c) shorting stock futures
 - (d) long index futures
 - (e) I am not attempting the question

42. Which of the following is the duty of the trading member? [3 Marks]
- (a) Employing large numbers of research analysts
 - (b) Executing his own orders prior to client orders
 - (c) Bringing risk factors to the knowledge of client
 - (d) None of the above
 - (e) I am not attempting the question
43. On expiry, the settlement price of a Reliance Industries Ltd. futures contract is _____ [2 Marks]
- (a) opening price of Reliance Industries Ltd.
 - (b) closing price of Reliance Industries Ltd.
 - (c) closing price of Reliance Industries Ltd. futures contract
 - (d) Last traded price of Reliance Industries Ltd.
 - (e) I am not attempting the question
44. On 1st January, a two month call option on the Nifty with a strike of 4250 is available for trading. The 'T' that is used in the Black Scholes formula should be _____. [1 Mark]
- (a) 3
 - (b) 0.16
 - (c) 90
 - (d) None of the above
 - (e) I am not attempting the question
45. The NEAT F&O trading system _____. [3 Marks]
- (a) allows spread trades
 - (b) allows combination trades
 - (c) allows only a single order placement at a time
 - (d) (a) and (b) above
 - (e) I am not attempting the question
46. Santosh is bearish about ABC Ltd. and sells 10 one-month ABC Ltd. futures contracts at Rs.3,96,000. On the last Thursday of the month, ABC Ltd. closes at Rs.410. He makes a _____. (assume one lot = 100) [1 Mark]
- (a) profit of Rs. 14,000
 - (b) loss of Rs. 14,000
 - (c) profit of Rs. 28,000
 - (d) loss of Rs. 28,000
 - (e) I am not attempting the question
47. To be eligible for trading a broker must be _____. [1 Mark]
- (a) SEBI registered
 - (b) highly capitalised
 - (c) a member of the Association of Trading members
 - (d) None of the above
 - (e) I am not attempting the question

48. You are the owner of a 4 million portfolio with a beta 1.0. You would like to insure your portfolio against a fall in the index of magnitude higher than 12%. Spot Nifty stands at 4200. Put options on the Nifty are available at three strike prices. Which strike will give you the insurance you want? [2 Marks]
- (a) 3,870
 - (b) 3,840
 - (c) 3,696
 - (d) None of the above
 - (e) I am not attempting the question
49. A stock is currently selling at Rs. 50. The call option to buy the stock at Rs.45 costs Rs.9. What is the time value of the option? [1 Mark]
- (a) Rs. 9
 - (b) Rs. 7
 - (c) Rs. 4
 - (d) Rs. 2
 - (e) I am not attempting the question
50. An option contract which will not be exercised on the expiry date is _____. [2 Marks]
- (a) an in-the-money option
 - (b) a deep in-the-money
 - (c) an out-of-the-money option
 - (d) None of the above
 - (e) I am not attempting the question
51. The theoretical futures price is based on the _____. [2 Marks]
- (a) strike price
 - (b) underlying spot price
 - (c) the price at which a futures contract trades in the market
 - (d) the price set by the exchange
 - (e) I am not attempting the question
52. On 1st January, a two month call option on the Nifty with a strike of 4000 is available for trading. The ' T ' that is used in the Black Scholes formula should be _____. [1 Mark]
- (a) 2
 - (b) 0.16
 - (c) 20
 - (d) None of the above
 - (e) I am not attempting the question
53. Stock options on HDFC Bank Ltd. can be exercised _____. [2 Marks]
- (a) any time on or before maturity
 - (b) upon maturity
 - (c) any time upto maturity
 - (d) on a date pre-specified by the trading member
 - (e) I am not attempting the question

54. Ms. Shetty has sold 1400 calls on HLL at a strike price of Rs.297 for a premium of Rs.11 per call on April 1. The closing price of equity shares of HLL is Rs. 300 on that day. If the call option is assigned against her on that day, what is her net obligation on April 01. [2 Marks]

- (a) Pay-out of Rs.12,300
- (b) Pay-in of Rs.12,000
- (c) Pay-in of Rs.11,000
- (d) Pay-out of Rs.11,200
- (e) I am not attempting the question

55. _____is allowed to clear trades of themselves but not of others. [1 Mark]

- (a) Trading member - clearing member
- (b) Trading members are not allowed to clear their own trades
- (c) professional clearing member
- (d) self clearing member
- (e) I am not attempting the question

56. Index Funds use index futures to reduce _____ [2 Marks]

- (a) tracking error
- (b) expenses
- (c) time to invest in the markets
- (d) All of the above
- (e) I am not attempting the question

57. Weekly options trading commenced on NSE in _____. [1 Mark]

- (a) 02-Jun-2005
- (b) 04-Jul-2005
- (c) NSE does not trade in Weekly options
- (d) 04-Jun-2005
- (e) I am not attempting the question

58. The market impact cost on a trade of Rs. 5 million of the S&P CNX Nifty works out to be about 0.05%. This means that if S&P CNX Nifty is at 4200, a buy order of that value will go through at a price of Rs. _____. [1 Mark]

- (a) 4202.10
- (b) 4200
- (c) 4210
- (d) 4211
- (e) I am not attempting the question

59. What is the outstanding position on which initial margin will be levied if no proprietary trading is done and the details of client trading are: one client buys 2000 units @ 1260. The second client buys 2000 units @Rs.1255 and sells 1000 units @Rs.1260.? [2 Marks]

- (a) 4000 units
- (b) 5000 units
- (c) 3000 units
- (d) None of the above
- (e) I am not attempting the question

60. In the F&O segment of NSEIL, obligations of client's positions are calculated on a _____ basis. [2 Marks]

- (a) cumulative
- (b) gross
- (c) net
- (d) portfolio
- (e) I am not attempting the question

Answers :

1	(d)	21	(a)	41	(c)
2	(a)	22	(a)	42	(c)
3	(b)	23	(d)	43	(b)
4	(d)	24	(b)	44	(b)
5	(c)	25	(d)	45	(d)
6	(d)	26	(d)	46	(b)
7	(c)	27	(c)	47	(a)
8	(a)	28	(c)	48	(c)
9	(a)	29	(a)	49	(c)
10	(d)	30	(a)	50	(c)
11	(a)	31	(c)	51	(b)
12	(a)	32	(b)	52	(b)
13	(d)	33	(b)	53	(a)
14	(b)	34	(b)	54	(d)
15	(c)	35	(c)	55	(d)
16	(a)	36	(d)	56	(a)
17	(a)	37	(b)	57	(c)
18	(c)	38	(a)	58	(a)
19	(c)	39	(c)	59	(c)
20	(b)	40	(a)	60	(c)