X

NPTEL

reviewer1@nptel.iitm.ac.in ▼

**Courses » Commodity Derivatives and Risk Management**

Announcements **Course** Ask a Question Progress Mentor

# Unit 2 - Week 1

## Course outline

How to access the portal?

Week 1

- Lecture 1: Introduction to Commodity Derivatives & Risk Management
- Lecture 2: Introduction to Commodity Derivatives & Risk Management (Contd.)
- Lecture 3: Futures Contract Specifications
- Lecture 4: Futures Contract Specifications (Contd.)
- Lecture 5: Futures Contract-Mark-to-Market Margin
- Power Point Presentation - Lecture 1 Week 1
- Quiz : Assignment - 1
- Volatility File
- Negotiable Warehouse Receipt
- Bank Loan against Warehouse Receipts

## Assignment - 1

**The due date for submitting this assignment has passed.** **Due on 2016-08-01, 23:00 IST.**

**Submitted assignment**

1) A spot exchange provides e-auction facility to commodity buyers and sellers. In the e-auction, a buyer will choose __________ to buy from while a seller will choose _________ to sell the underlying commodity. ***2 points***

- Lowest Bidder, Highest Bidder
- Highest Bidder, Lowest Bidder
- Median Price Bidder, Average Price Bidder
- Average Price Bidder, Median Price Bidder

**No, the answer is incorrect.**
**Score: 0**

**Accepted Answers:**
*Lowest Bidder, Highest Bidder*

2) A trader of Soybean (buys Soybean from farmers and sells these at a margin) is holding inventory of last year crop. A farmer is going to get his Soybean harvest within next 1 month. The trader is __________ asset and would mitigate the price risk by entering into _________ forward position while the farmer is ______________ asset would mitigate the price risk by entering into _________ forward position. ***2 points***

- Short, Long, Long, Short
- Long, Short, Long, Short
- Long, Long, Long, Long
- None of these.

**No, the answer is incorrect.**
**Score: 0**

**Accepted Answers:**
*Long, Short, Long, Short*

3) Different functions provided by a clearing house: ( Choose the INCORRECT one) ***2 points***

- Clearing House becomes counterparty to each buyer and each seller-doing away with the credit risk.
- Through the Clearing House, Exchange guarantees the settlement to each and every counter party even in the event any one of the counterparty defaults.
- Clearing House is responsible for collecting margin from traders.
- Clearing House matches buy and sell orders given by traders.

**No, the answer is incorrect.**
**Score: 0**

Excessive Speculation And Market Manipulation: The Guar Futures Trading Fiasco

MCX Cotton Contract Specification

List of NCDEX Accredited Warehouses

Assignment 1- Solution

**Week-2**

**Week 3**

**Week 4**

**Week 5**

**Week 6**

**Week 7:**

**Week 8**

**Accepted Answers:**
*Clearing House matches buy and sell orders given by traders.*

4) Choose the CORRECT sequence /time line for “Delivery Details" in a futures contract specification : ***2 points***

- Delivery pay-in of commodities, Delivery pay-out of commodities, Pay-in of funds, Pay-out of funds
- Delivery pay-in of commodities, Pay-in of funds, Delivery pay-out of commodities, pay-out of funds
- Pay-in of funds, Pay-out of funds, Delivery pay-in of commodities, Delivery pay-out of commodities
- Delivery pay-out of commodities, Pay-in of funds , Pay-out of funds, Delivery pay-in of Commodities

**No, the answer is incorrect.**
**Score: 0**

**Accepted Answers:**
*Delivery pay-in of commodities, Pay-in of funds, Delivery pay-out of commodities, pay-out of funds*

5) Normally “Due Date Rate (DDR)/Final Settlement Price(FSP)” for a commodity is: ***2 points***

- Average of last few days futures closing price for that commodity.
- Average of last few days spot and futures price for that commodity collected from different markets all over India.
- Average of last few days spot price for that commodity collected from a specific market.
- The exchange uses its own internal model to arrive at DDR/FSP

**No, the answer is incorrect.**
**Score: 0**

**Accepted Answers:**
*Average of last few days spot price for that commodity collected from a specific market.*

6) Identify the INCORRECT statement ***2 points***

- Futures contracts are standardized in commodity exchanges
- All open positions on the expiry must be settled in cash
- Clearing House assumes counterparty risk for each and every trade undertaken in an exchange platform
- Commodity derivative contracts derive their value from spot contracts.

**No, the answer is incorrect.**
**Score: 0**

**Accepted Answers:**
*All open positions on the expiry must be settled in cash*

7) Current price of an asset is INR 1900. Value-at-Risk (VaR) of that asset is INR 300 over a week with 98% confidence. It means that there is _____% probability that the asset would lose ________ over ______. ***2 points***

- 2%, INR 300, a week
- 98%, INR 1900, a week
- 2%, INR 1900, a week
- 98%, INR 300, a week

**No, the answer is incorrect.**
**Score: 0**

**Accepted Answers:**
*2%, INR 300, a week*

8) Open interest for a given futures contract for a given maturity on a given day ***2 points***

- Sum total of both long and short futures positions for that contract for that maturity yet to be squared up.

- Sum total of either long or short futures positions for that contract for that maturity yet to be squared up.
- Sum total of total volume of futures traded in a given day.
- Sum total of total value of futures traded in a given day.

**No, the answer is incorrect.**
**Score: 0**

**Accepted Answers:**
*Sum total of either long or short futures positions for that contract for that maturity yet to be squared up.*

9) On August 10, 2016, a cardamom trader took long futures positions for September 2016 contract (1 contract for 10 KG minimum lot size) at Rs. 650 per KG. On August 10, 2016 and August 11, 2016, the same futures contract closed at Rs. 665 and Rs. 685 respectively. The mark-to-margin payment/receipt for 10 and 11 August, 2016 would be ***2 points***

- Receipt of Rs. 1500 and Receipt of Rs. 3500 respectively
- Payment of Rs. 1500 and Payment of Rs.2000 respectively
- Payment of Rs. 1500 and Payment of Rs.3500 respectively
- Receipt of Rs. 1500 and Receipt of Rs.2000 respectively

**No, the answer is incorrect.**
**Score: 0**

**Accepted Answers:**
*Receipt of Rs. 1500 and Receipt of Rs.2000 respectively*

10) Standard deviation of 7-days return (daily return series of spot price) is 1.02%. The annualized volatility is (based on 305 days of trading over 52 weeks or 365 days in a year) is ***2 points***

- 1.02% * 52
- 1.02% * sqrt (52)
- 1.02% * sqrt (305)
- 1.02% * sqrt (365)

**No, the answer is incorrect.**
**Score: 0**

**Accepted Answers:**
*1.02% * sqrt (305)*

11) Maximum allowable open position for “a client” will always be __________ the maximum allowable open position for “a trading member”. ***2 points***

- Higher than
- Lesser than
- Equal to
- No relationship

**No, the answer is incorrect.**
**Score: 0**

**Accepted Answers:**
*Lesser than*

12) On the contract expiry date, there are 575 contracts yet to be squared up. Buyers would like to take delivery of underlying for 200 contracts, while sellers would like to give delivery of underlying for 125 contracts. How much of underlying would be delivered if “delivery logic” is “compulsory delivery” , “ cash settled” , “ buyers’ choice” and “ both choice” ? ***2 points***

- 575 contracts, 575 contracts, 375 contracts, 125 contracts respectively
- 575 contracts, 0 (zero) contracts, 375 contracts, 200 contracts respectively
- 575 contracts, 0 contracts, 375 contracts, 125 contracts respectively
- 575 contracts, 0 contracts, 200 contracts, 125 contracts respectively.

**No, the answer is incorrect.**
**Score: 0**

**Accepted Answers:**

*575 contracts, 0 contracts, 200 contracts, 125 contracts respectively.*

13) Identify the INCORRECT statement: Open interest calculation considers **2 points**

- If two new parties take futures position - open interest increases.
- If a new party trades with an existing party (who is squaring up its open position) - open interest remains constant.
- In a new party trades with another new party - open interest remains unchanged.
- If both parties with open positions trade with each other to square up - open interest reduces.

**No, the answer is incorrect.**
**Score: 0**

**Accepted Answers:**
*In a new party trades with another new party - open interest remains unchanged.*

14) Choose the CORRECT one. In a “Short Squeeze” situation: **2 points**

- Short futures holder are at disadvantageous position
- Long futures holders are at disadvantageous position.
- Spot price normally goes down.
- Long futures position holders normally sell the underlying asset before taking the long futures position.

**No, the answer is incorrect.**
**Score: 0**

**Accepted Answers:**
*Short futures holder are at disadvantageous position*

15) Choose the CORRECT one: In case of a “negotiable” warehouse receipt: **2 points**

- It has to be issued in dematerialized from.
- Ownership of the underlying goods can be transferred without physically transferring goods.
- Can only be issued for those commodities which are traded in commodity exchanges.
- Are issued by “Warehousing Development & Regulatory Authority (WDRA)”

**No, the answer is incorrect.**
**Score: 0**

**Accepted Answers:**
*Ownership of the underlying goods can be transferred without physically transferring goods.*

Previous Page End