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NPTEL

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Courses » Commodity Derivatives and Risk Management

Announcements **Course** Ask a Question Progress Mentor

Unit 3 - Week-2

Assignment-2

The due date for submitting this assignment has passed. **Due on 2016-08-03, 23:00 IST.**

Submitted assignment

1) An investor invested in a bank FD for 1 (one) year. The investor can choose between two interest rates: 8.25% compounded semiannually and 8% compounded quarterly. What is the per annum interest rates he would earn in both cases? ***2 points***

- 8.32% and 8.64%
- 8.25% and 8%
- 8.42% and 8.24%
- None of the above

No, the answer is incorrect.
Score: 0

Accepted Answers:
8.42% and 8.24%

2) With respect to the information provided in Question 1, find out the equivalent continuous compounding rate per annum for both options ***2 points***

- 8.08% and 7.92%
- 8.16% and 8.04%
- 8.25% and 8%
- None of the above

No, the answer is incorrect.
Score: 0

Accepted Answers:
8.08% and 7.92%

3) Spot price of an investment asset is Rs.375 and the risk-free rate for all maturities is 10% with continuous compounding. The asset provides an income of Rs.8 at the end of the 6-month. What is the 1-year forward price? (choose the nearest one) ***2 points***

- 382.60
- 422.85
- 380.95
- 433.90

No, the answer is incorrect.
Score: 0

Accepted Answers:
422.85

4) A cardamom wholesaler (who buys cardamom from farmers and sells these at a profit) has already agreed to sell 100 kgs of Cardamom at a fixed price to be delivered after 2 months. The wholesaler intends to buy Cardamom from farmer after a month. To protect its margin, the Cardamom wholesaler will ***2 points***

- Take short futures on Cardamom as he is long on cash market position
- Take long futures on cardamom as he is short on cash market position
- Take long futures on cardamom as he is long on cash market position
- Take short futures on cardamom as he is short on cash market position

No, the answer is incorrect.
Score: 0

Accepted Answers:
Take long futures on cardamom as he is short on cash market position

5) Suppose you bought a futures contract at Rs.1580 with prevailing spot price of Rs. 1565.If the futures price changes to Rs. 1564 and corresponding spot price is Rs. 1550, what is its value of the futures contract, before it is marked-to-market? ***2 points***

- 0
- Rs.16
- Negative Rs.16
- Negative Re.1

No, the answer is incorrect.
Score: 0

Accepted Answers:
Negative Rs.16

6) A Jeera wholesaler (who buys Jeera from farmers and sells these at a profit) has already bought 2 tons of Jeera. It is yet to find buyers for the Jeera. To protect its margin, the Jeera wholesaler will ***2 points***

- Take long futures on Jeera as he is short on cash market position
- Take long futures on Jeera as he is long on cash market position
- Take short futures on Jeera as he is short on cash market position
- Take short futures on Jeera as he is long on cash market position

No, the answer is incorrect.
Score: 0

Accepted Answers:
Take short futures on Jeera as he is long on cash market position

7) Which of the following is a consumption asset? ***2 points***

- Nifty
- Infosys Stock
- Non-Convertible Debenture issued by Tata Motors
- Aluminium

No, the answer is incorrect.
Score: 0

Accepted Answers:
Aluminium

8) Spot price of a commodity is Rs. 1780. Storage cost associated with this commodity is Rs. 1 per day – but paid at the end of the storage period. A trader wants to find out the theoretical futures price for a contract maturing after 60 days. His cost of fund is 8% per annum (continuously compounded) and year is assumed to be of 360 days. The theoretical futures price is ***2 points***

- 1864.69
- 1833.80
- 1863.89
- 1845.90

No, the answer is incorrect.
Score: 0

Accepted Answers:
1863.89

9) With respect to the information provided in Question No. 3, the actual futures price (available in the market) is Rs. 1900. What would be the trader’s arbitrage strategy on the spot date? ***2 points***

- Sell commodity in spot and Invest Rs. 1780 in risk free rate, Take Long futures Position for 2 month
- Sell commodity in spot and Invest Rs.1780 in risk free rate, Take short futures Position for 2 month
- Borrow Rs.1780, Sell commodity in spot,Take short futures position for 2 month
- Borrow Rs.1780 to buy commodity in spot,Take Long futures position for 2 month

No, the answer is incorrect.
Score: 0

Accepted Answers:
Borrow Rs.1780 to buy commodity in spot,Take Long futures position for 2 month

10) On a given day, spot price and near month futures price for a commodity is Rs. 1700 and Rs.1720 respectively. After a week, both prices changed to Rs.1690 (spot) and Rs.1680 (futures). It indicates that the market has moved from ***2 points***

- Backwardation to Contango
- Contango to Backwardation
- Contango market has remained unchanged
- Backwardation market has remained unchanged

No, the answer is incorrect.
Score: 0

Accepted Answers:
Contango to Backwardation

11) As the convenience yield increases, which of the following is true? ***2 points***

- The futures price as a percentage of the spot price increases
- The futures price as a percentage of the spot price decreases
- The futures price as a percentage of the spot price stays the same
- None of the above

No, the answer is incorrect.
Score: 0

Accepted Answers:
The futures price as a percentage of the spot price decreases

12) In an “all throughout contango market”, strengthening of the basis means ***2 points***

- spot price increases less than the futures price
- the futures price falls less than the spot price
- a short hedger benefits
- a short hedger loses

No, the answer is incorrect.
Score: 0

Accepted Answers:
a short hedger benefits

13) In case of an “all throughout backwardation market” the forward curve will be ***2 points***

- Upward sloping
- Downward sloping
- Horizontal
- Either upward or downward sloping

No, the answer is incorrect.
Score: 0

Accepted Answers:
Downward sloping

14) Which of the following is the CORRECT definition of Backwardation? ***2 points***

- The futures price is higher than expected futures price
- The futures price is higher than the spot price
- The futures price is lower than the spot price
- The futures price is equal to the spot price

No, the answer is incorrect.
Score: 0

Accepted Answers:
The futures price is lower than the spot price

15) What happens to the basis through the contract's life? ***2 points***

- It initially decreases, then increases
- It initially increases, then decreases
- It remains relatively steady
- It moves toward zero

No, the answer is incorrect.
Score: 0

Accepted Answers:
It moves toward zero

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